Workers' Compensation Board – Alberta

2011 Annual Report

We treat everyone with dignity
and listen to our customers

WCB-Alberta
2011 Annual Report

Financials

and share information openly

2011 Board of Directors

The Board of Directors plays a significant role in ensuring WCB-Alberta's accountability. The board is responsible and accountable to the Minister of Alberta Human Services for WCB-Alberta as defined in the *Workers' Compensation Act* and corporate governance policy[1].

In their governance role, members regularly review the strategic direction for the organization. Using their diverse areas of expertise, the Board of Directors ensures WCB-Alberta remains true to its mandate and that the health of the system is protected for the long term.

Board committees— • Audit, • Finance, • Governance, • Human Resources and Compensation, and • Policy—review information from all areas of the business, and identify and assess risks to help WCB-Alberta's executive team make informed decisions.

Guy R. Kerr
President & CEO

David B. Carpenter
Chair, Board of Directors*

Representative of the interests of Employers**

Fauzia Lalani • • •

Bob Normand • •

Representative of the interests of Workers**

Tim Brower • •

Richard Mirasty • •

Representative of the interests of the General Public

Norbert Van Wyk • • •

Robert Nicolay • •

Denis Herard • •

[1] www.wcb.ab.ca/public/board.asp
*Term ended February 2012
**One vacancy to be filled in 2012
The Chair of the Board of Directors and the President & CEO are ex-officio members of all committees.

Message from the Acting Chair and President & CEO

Our workers' compensation system is made up of millions of ordinary people brought together through extraordinary circumstances. Our system works through our collective efforts and talents.

In 2011, WCB worked with over 4,500 community physicians and specialists to provide medical support, advice and treatment for injured workers. In all, WCB paid over $276 million in health care costs to ensure our clients had the best chance of achieving their fitness for work and 93 per cent of the clients we cared for this past year did just that.

Our work is important, and it is gratifying to get the letters from our clients that reinforce the value of our services and the compassion of our staff. The messages mean a lot to us as they crystallize how much impact our relationships have. The following is a short excerpt from one such letter, written by the widow of one of our clients who died of work-related cancer after 32 years as a firefighter.

"This is my second attempt to put on paper a thank you that is adequate for the extraordinary people who claim they were just doing their jobs....

...The financial support eliminated so many of the issues that could have increased the stress we were dealing with. It allowed us to really take advantage of the time the cancer clinic was trying to buy us.

...Our WCB team has, and continues to support me and for that I am truly grateful. This team deserves to be recognized as a group of outstanding individuals who go above and beyond with their extraordinary caring and support.

I will close now with the only words available, inadequate as they are...Thank You! You will just have to take my word for how much of an impact you made in our lives."

- Wendy

We draw inspiration from the strength and determination we see every day in workers who work so hard to overcome challenges in getting back to work, and in employers who do their utmost to help make their return to work possible.

It's not always easy, but the road is made immeasurably easier when we work together, and because our employees listen, care and constantly search for ways to do things better. It is our goal to keep improving, and to dedicate ourselves to the foundations of our service–return to work and commitment to fairness.

Fauzia Lalani,
Acting Chair, Board of Directors
Workers' Compensation
Board – Alberta

Guy R. Kerr,
President & CEO
Workers' Compensation
Board – Alberta

Strategic Management Council

employee profile

One WCB employee's 37-year journey

I started working for WCB-Alberta on Sept. 18, 1974.

I knew from my very first day that I would be making a career out of it. I remember telling my sister, "I love the place so much that I will never quit." As I write this and prepare to retire, it has now been 37 years, four months and 19 days.

I have grown with the organization and it has given me every opportunity to learn with some of the greatest leaders in the business. WCB is a world class organization and I am very proud to have been part of it. We have excellent leaders who are committed to bringing about continuous improvement in how we do our jobs.

During my career with WCB, I pursued a few different positions. I spent the last 22 years of my employment working at the Dispute Resolution and Decision Review Body (DRDRB), 19 of those years in supervision.

I wasn't sure that I ever wanted to be a supervisor, but with a push from my husband, I am glad I made the move as it allowed me to become a lot more confident in myself. Coming from the farm and being afraid of my own shadow, this really helped me to become the person I am today.

I consider myself to be a very committed individual. I always gave 100 per cent of myself as I wanted and needed to do the best for the organization. I feel extremely proud to have worked for an organization such as this.

The hardest part for me will be to leave behind all the great people I worked with and the friends I have made over the past 37 years.

- Doris

In 2011,

1,682

committed WCB employees worked with nearly 1.8 million workers and over 146,000 employers to help reduce the impact of workplace illness and injury on Albertans.

- 95.3% of WCB employees agree WCB is a good place to work.
- 95.2% of employees understand how their objectives align with corporate objectives.

Doris Goldbeck, a supervisor with the Dispute Resolution and Decision Review Body, retired in early 2012 after a challenging 37-year career with WCB.

A workers' compensation system for Albertans

Our Vision

Albertans working—a safe, healthy and strong Alberta.

Our Mission

WCB-Alberta, working together with our partners, will significantly and measurably reduce the impact of workplace illness and injury on Albertans.

Our focus

Our work is grounded in legislation and policy. Our Strategic Plan directs our efforts into four key strategic themes that we believe make a difference for Albertans.

Commitment to fairness

As a fair organization we:

- Provide no-fault coverage to Alberta workers and employers.
- Compensate injured workers for lost employment income and cover treatment and rehabilitation costs.
- Apply consistent and balanced interpretation of legislation and policy.
- Make clear and timely decisions, and keep clients involved and informed about those decisions.

Focus on return to work

To help Albertans achieve a safe and sustainable return to work we:

- Develop case plans that set clear goals.
- Support employers and workers in developing and maintaining strong disability management and modified work programs.
- Provide appropriate benefits and services that promote safe return to work.
- Concentrate on services that assist workers to recover.

As the neutral administrator of the *Workers' Compensation Act* (the Act) for the province, we are committed to balancing the interests of our stakeholders and ensuring the system is sustainable.

We believe in...

- Ensuring injured workers receive their full entitlement under the Act and helping them achieve fitness to return to sustainable work.
- Working within a system with strong checks and balances that ensure legislation and policies have been applied correctly.
- Explaining decisions well and working with our clients to resolve differences.
- Encouraging our stakeholders to question decisions so they participate fully in the system and their voices are heard.
- Learning continually and evolving to meet the needs of our clients.
- Maintaining a strong and stable system that is here for Alberta workers and employers in the long term.

Every WCB-Alberta employee is committed to helping injured workers return to work and independence. We are dedicated to doing what we can to help within the scope of the workers' compensation system, and doing it fairly.

Leveraging prevention

To encourage employers to provide safe work and safe return-to-work options we:

- Offer pricing programs that promote and reward improvements in workplace safety.
- Set premium rates that reflect employer performance.
- Develop relationships with partners and work toward common goals.

Financial stability

To ensure we can continue to deliver benefits and services to our stakeholders we:

- Maintain a fully-funded system to ensure benefit security for workers in the long term.
- Collect employer premiums to meet the current and future cost of injuries that occur in an accident year.
- Maintain an accident fund to protect Albertans from future uncertainties.
- Effectively manage claims and costs.

Customer Outcomes

Our neutral organization is dedicated to delivering balanced application of the *Workers' Compensation Act*. This means fair adjudication of benefit entitlement, clear goal-setting and return-to-work planning, efficient and effective service delivery, fast and accurate benefit payments, and consistent delivery of great customer service.

We are passionate about what we do and the difference we can make in an injured worker's recovery.

corporate objectives

Measure the positive impact we have on the lives of Alberta's injured workers by helping 90% of those cared for in 2011 achieve the fitness they need to make a safe return to work.

RESULT

We beat our target.

Clinical studies have shown that an early and safe return to work is a positive means of achieving a healthy recovery from injury.

Through proactive return-to-work planning and efficient service delivery, customer service teams helped 93% of our clients achieve their fitness for work.

Measure our positive impact on the lives of Alberta's injured workers by exceeding an 85% average case planning certification score to deliver outcome focused services for a successful return to work.

RESULT

We beat our target.

The case plan certification process ensured our clients received the right information and decisions to develop the right return-to-work plans and to actively contribute to their success.

We achieved an overall 91% certification score for the year.

Measure the positive impact we have on Alberta's workplaces by increasing the number of workers covered by employers participating in the voluntary pricing programs as measured by a $1 billion increase in total insurable earnings for participants.

RESULT

We beat our target.

Employers embraced voluntary pricing programs and the accountability that goes with them.

Industry Custom Pricing and Partnerships in Injury Reduction programs reflect commitments from industry and employers to health and safety and safe return-to-work alternatives for workers.

Employers representing approximately 66% of the province's workforce signed up for a voluntary pricing program, with net program growth of $3.97 billion in insurable earnings.

100%

Overall satisfaction with WCB

74.5% workers

87.0% employers

Satisfaction with the fairness of decisions

80.7% workers

71.3% employers

Striving for excellence

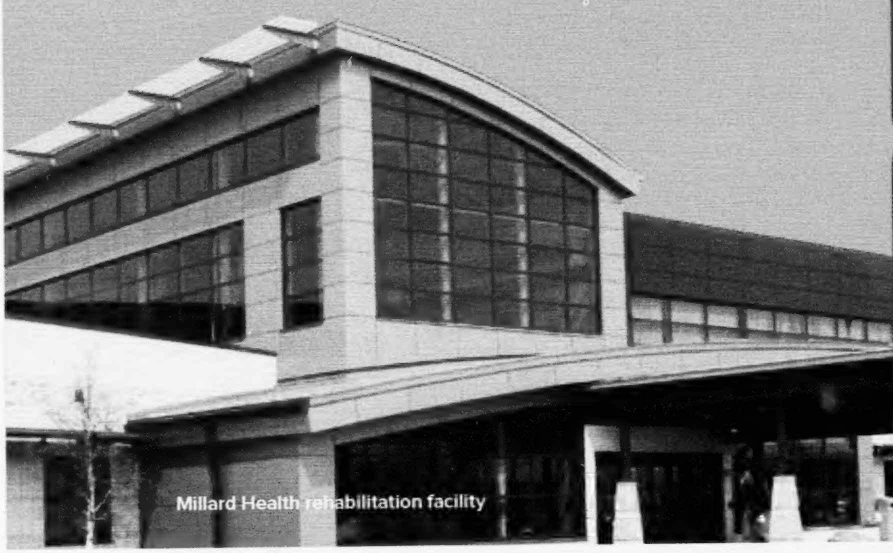
Saying we care is easy. Showing we care takes dedication and tremendous effort.

Recovery can be scary. Visiting a rehabilitation facility can be daunting. Entering a world of unknowns can be stressful. We understand this. Our focus is ensuring quality care for each injured worker who walks through our doors.

WCB's Millard Health rehabilitation facility strives to be a leader in return-to-work service provision, and for the last 21 years, achieving accreditation from the Commission on the Accreditation of Rehabilitation Facilities (CARF) has shown our commitment to the recovery and care of our clients.

We continually look at how new, innovative programs can be developed to ensure we are providing excellent service to injured workers and employers; attaining CARF accreditation affirms our goals and objectives. CARF surveyors look at all facets of Millard Health's business, our standards and policies and how we provide care to our clients before awarding the high distinction of CARF accreditation.

Being held to CARF's high standards ensures our clients receive top-notch service from the minute they step through our doors. Each person receives consistent, quality care aimed at a full recovery. They are introduced to our facility, oriented to their care plan, and are free to ask questions of any one of us at any time. We want our clients to understand that Millard Health is about getting them healthy and getting them back to life, followed by a return to work.



Millard Health rehabilitation facility

Millard Health

What is Millard Health?

Millard Health cares for injured workers. A team of skilled occupational rehabilitation professionals treat the whole person—physically, psychologically and vocationally. Our goal is to help our clients gradually build their skills and strengths toward returning to work and to life. We do this consistently while following ethical and professional standards.

What is CARF?

Founded in 1966, CARF International is an independent, non-profit accreditor of health and human services. CARF's mission is to promote the quality, value and optimal outcomes of services through a consultative accreditation process that centres on enhancing the lives of the people served—in our case, injured workers.

Comments from our clients

"Thanks for all that you do. I know that all of the hard work we did together will pay off. Thanks for your sympathetic ear, your emotional support and your encouragement. It won't ever be forgotten. You are a WONDERFUL team!"

- Tracy

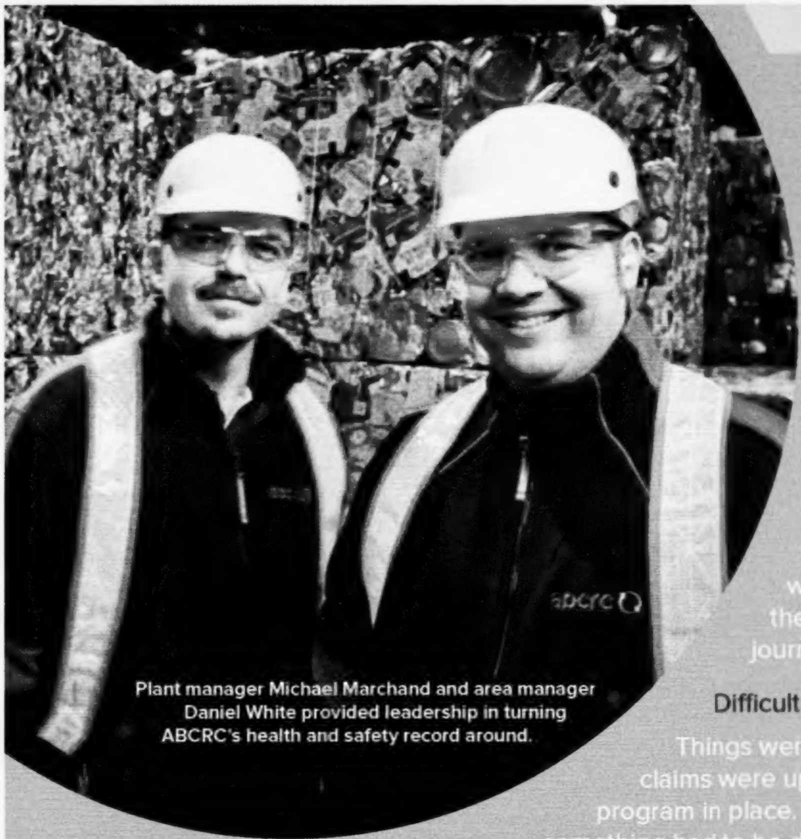
"I can't say thank you enough for all that you did to ensure my complete recovery from my injury. Your rehab efforts and assistance were so, so helpful. I'm doing post-recovery maintenance at a fitness club, and I'm really enjoying my new part-time job working with some very special children. With much appreciation...."

- Yvonne

employer profile

Message in a bottle

Alberta Beverage Container Recycling Corporation turned health and safety right-side up



Plant manager Michael Marchand and area manager Daniel White provided leadership in turning ABCRC's health and safety record around.

The machines were turned off. It was time for a celebration. The Alberta Beverage Container Recycling Corporation (ABCRC) had 23 more workers go home safely in 2011 than in the previous year. This had been a long journey—one worthy of a celebration.

Difficult times

Things were very different in 2002. Lost-time claims were up and there was no health and safety program in place. Indeed, the bottle was half empty and something had to be done to reverse this performance.

It could easily be assumed that sprains, strains and cuts were just a consequence of working in an industry that is responsible for processing 4.5 million containers

corporate objectives

Key Deliverables

Our day-to-day conversations with employers and workers helped us achieve strong client success with modified work; however, Alberta's economy had an impact on our clients' ability to recover their pre-injury earnings.

Proactively negotiate modified work on behalf of injured workers and improve the percentage of files[1] with modified work performed and documented by 5%. Target: 42.2%

RESULT

We beat our target.

Modified work helped injured workers and employers focus on recovery and ability. The right modified work program made a worker's return to work both achievable and safe, minimizing the negative impact of disability on his or her workplace, family and self.

Customer service teams achieved 44.4% on this initiative and saw an increase in overall use of modified work of nearly 3%.

[1] With time loss greater than 21 days.

Prevent lifelong disability by helping injured workers move effectively through the disability management process. Monitor clients' injury rehabilitation through their progression from short-term disability benefits to fitness for work or appropriate long-term benefits by reporting the number of cases that exceed three months of total disability at year end. Target: 830 cases

RESULT

We beat our target.

By providing well-coordinated support and timely access to services, customer service teams achieved remarkable success with their clients, helping 84 more injured workers than planned achieve their fitness for work.

per day in Alberta. The company knew it would take time to change.

"When we began to really concentrate on the health and safety side of the business, we were starting from the bottom of the mountain," explains ABCRC's CEO, Guy West. "We knew it would be a steep climb, so we started slowly."

The company began automating key processes and conducting ergonomic assessments to help them identify improvement opportunities. In 2010, WCB account manager Leigh-Ann Moroz met with ABCRC's health and safety coordinator Richard Panas and the two put together training sessions on the benefits of early reporting, modified work and the Occupational Injury Service. ABCRC was on its way to much-improved performance.

Modified work makes sense

Now, when an injury occurs at one of the plants, ABCRC makes every effort to find jobs that are suitable for injured employees. This was evident when WCB claims auditor Brian Lee visited the Edmonton plant. Lee noted that everyone at the company realized that modified work was about helping out a fellow employee until he or she returned to good heath.

"It's also in the employee's best interest to get back to work as soon as possible, be productive and add value to the workplace," adds West.

"WCB came in here not looking for problems, but to try and help us find solutions," says West. "If there is one thing we should all think about it's that at the end of the day employees want to go home to their families injury-free."

West's advice for other employers looking to improve performance

- *Take your time and develop a plan that suits your company and your employees.*
- *Understand that results take time, but you can get there.*
- *Don't be afraid to ask for help, like we did with the Manufacturers' Health and Safety Association and WCB.*

Provide timely vocational assistance to identify positive return-to-work options for clients who require a job change and assist 75% of injured workers who utilize career planning services to achieve the potential to earn 75% or more of their pre-injury income.

RESULT

We improved.

The impact of a sluggish economy has been felt most by our clients in their post-injury earnings.

Through the vocational rehabilitation support we provided, wage replacement results improved somewhat over 2010 results but fell short of our target as 71.8% of clients reached the potential to earn at least 75% of their pre-injury income.

Help injured workers maximize their post-injury income through effective return-to-work planning. Do not exceed capitalized economic loss payment budget by more than 15%.

RESULT

We missed our target.

Economic loss payments (ELPs) represent a monthly wage top-up for workers when their compensable injury or illness prevents them from reaching the same level of earnings they had at the time of injury.

The expenditure on new ELPs increased to $122.9 million, 85.6% higher than budget and 16.7% higher than forecast.

Total return to work:

93.5%

With date of accident employer: 91.5%
With new employer: 2.0%

Financial Stability

We aim to ensure fair compensation for injured workers at a fair price for employers. The key to achieving this equity of interests is to ensure long-term financial stability through sound financial management. To this end, we focus on four key principles:

- Minimizing the risk of being unfunded so that worker benefits are secure;
- Minimizing funding volatility so that employer premium rates are stable;
- Minimizing the impact of workplace injuries so that employers experience fair premium rates and injured workers receive appropriate compensation and rehabilitation; and
- Ensuring that today's employers pay for the current and future costs of today's injuries.

These principles are at the core of the organization's key financial processes, such as funding policy design, rate setting and strategic financial planning.

corporate objectives

Measure the positive impact our initiatives and results have on the workers' compensation system by achieving:

Transaction-year claim costs that do not exceed the 2011 budget by more than 5%.

RESULT

We missed our target.

Transaction-year claim costs of $679.6 million were 17.5% above budget and 16.4% higher than 2010 costs.

Approximately 74% ($75.0 million) of the variance is related to prior-year claims, whereas 26% ($26.2 million) is related to current-year injury volumes and costs.

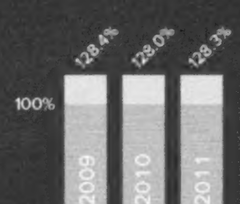
95% of the premium revenue target set for 2011.

RESULT

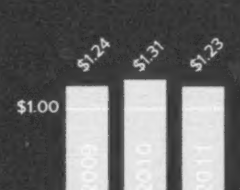
We beat our target.

At the end of the year we had collected 105.3% of the premium revenue budgeted for 2011.

Most of the increase was due to higher-than-budgeted insurable earnings, with the highest contributing sectors being mining, oil and gas, and trade.



Funding status



Average premium rate collected

Investments *The European sovereign debt crisis, Arab spring, U.S. debt ceiling debacle, and fears of an economic slowdown in China were some of the headline stories that contributed to economic uncertainty, capital market volatility and negative returns from equity markets in 2011. With this backdrop, I am very pleased with the 4.4 per cent return earned by the WCB-Alberta portfolio. The portfolio is designed to have diversification of risk exposures, which should provide low volatility, a stable return stream and better alignment with WCB liabilities. To achieve this, the exposure to equities has been reduced and has been replaced with a higher exposure to inflation-sensitive assets (real return bonds, real estate and infrastructure), along with increased active management. The strategy is working, and as such the returns won't be spectacular, but that's OK—that is not the goal. The goal is to ensure funds are available to pay long-term claim benefit liabilities while also contributing to the corporate goal of financial stability.*

\- Dave Lawson, chief investment officer

Innovations

Our technology investments provide a strong and stable foundation for our employees to deliver the work, processes and results we aim for in all interactions and enable our customers to access information and complete business transactions on their terms.

In 2011, we focused on reinvesting in existing technology, advancing both capability and reliability.

69,800

worker claim queries were processed through our worker online services application

corporate objective

Optimize internal and external process and reduce technical complexity while re-platforming critical legacy systems.

RESULT

Several key systems underwent technical security re-platforming to enhance data security and system administration.

Core online services such as the Direct Employer Clearance Certificates (DECC) application, the Self-Service Account Management (SAM) system and Worker Online Services (WOS) delivered value to our clients, allowing us to absorb significant increases in business transactions.

The growth of online services has opened up some great opportunities for our clients, including the employers I work with every day. An application like loss control reporting (LCR) is a great tool that helps employers manage their claims and claim costs. By accessing their individual reports regularly and analyzing the information, employers can track and stay on top of their yearly costs. Employers can also use the reports to help detect any gaps in their return-to-work programs, to identify the types of claims they are seeing the most and, possibly, to put preventative measures in place to stop them from happening in the future. These are things we work with employers to recognize—it's great for them to be able to access the information directly and develop proactive safety and return-to-work strategies for their workplaces.

- Leigh-Ann Moroz, WCB account manager

myWCB

12,145

new employer accounts were created online

84,742

claim forms were submitted online by injured workers, employers and physicians

1.8 million

clearances were obtained online through DECC

For our community...

Giving comes in all shapes and sizes

Many people have causes that are close to their hearts, and WCB-Alberta staff are no different. As an organization, we offer opportunities to help them connect with their community and get involved whenever and wherever they can.

WCB-Alberta supports the efforts of our staff and is proud they make such a positive impact in Alberta. It reflects our culture of caring.

In 2011 ... **800** pounds of food were collected for Edmonton's Food Bank.

Our partners raised **$62,000** for the Calgary Firefighters Burn Treatment Society at our annual Charity Golf Tournament.

Over **$8,000** in money or material was donated to various groups across the province, including Boyle Street Co-op, Aboriginal Learning Centre, The Learning Centre Literacy Association, ABC Headstart and the Hope Mission.

225 pairs of shoes were collected for the Youth Emergency Shelter.

264 units of blood were donated to help save lives.

Over **$28,000** was donated to provincial charities through employee payroll deductions.

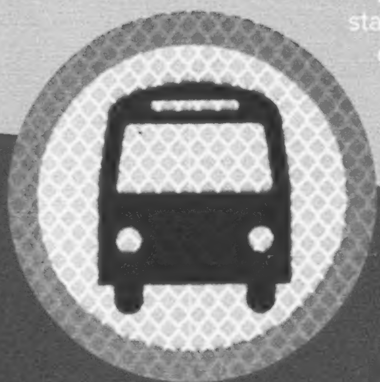
... and for our environment

A large company with a small footprint

In today's society we understand the importance of our planet's environment. Families recycle, turn off lights when not in use, and may even stop idling their cars. Individually, we each have an idea of what small things we can do to help the environment. But managing our environment has to surpass our family lives—it needs to be incorporated into all areas of life, including the workplace.

WCB-Alberta is proud to be a workplace where we not only create awareness among our employees of the practices of energy efficiency and the 3 R's (reduce, reuse, recycle), but we actively strive to ensure continual improvement in the areas of energy management, waste reduction and community environmental stewardship. Our aim is to provide a vibrant and healthy future for our employees, our business and generations to come.

WCB-Alberta is committed to these practices because we understand the importance and need of supporting our staff and clients, and our collaborative quest for a better, healthier future.



53%

of WCB-Alberta employees think green when commuting to work, travelling by foot, transit, bike and carpooling.

WCB-Alberta won the

2011

Building Owners and Managers Association (BOMA) Earth Award for excellence in addressing environmental issues.

By bringing our own mugs to work, we reduced our use of disposable cups by

88%

in just two years.

We removed over

300

pounds

of litter around our downtown Edmonton buildings through Capital City Clean Up.

2011 financial highlights

Average premium rate

of $1.23 per $100.00 of insurable earnings was $0.01 higher than budget. This is 6.1% lower than the average rate collected in 2010.

Surplus from customer operations

of $45.8 million was $22.9 million higher than budget and $84.2 million lower than in 2010. Collected premiums were higher than budget due to higher than expected employment and wage growth. Premiums fully covered higher claim costs arising from an increase in claim volumes and associated costs.

Surplus from financial management

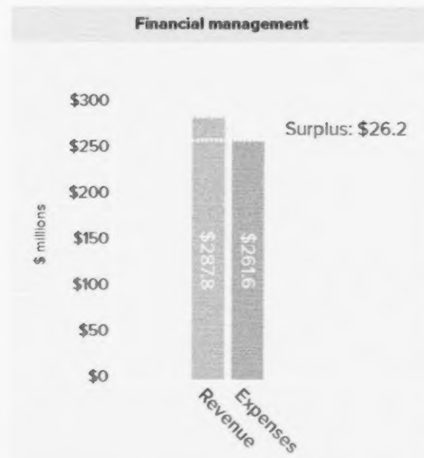
of $26.2 million was $138.5 million lower than budget and $304.2 million lower than in 2010 due to significant underperformance in equity markets and small changes in actuarial re-measurement adjustments.

Operating surplus

of $72.0 million was $115.6 million below budget and $388.4 million lower than in 2010.

Funded Position

of $1,655.1 million increased by $54.2 million over 2010.



WCB-Alberta

Management Discussion and Analysis of Financial Statements and Operating Results

For the year ended December 31, 2011

Management Discussion and Analysis of 2011 Financial Statements and Operating Results

The Management Discussion and Analysis (MD&A) provides management's perspective on key issues that affect current and future performance of the Workers' Compensation Board – Alberta (WCB-Alberta). The MD&A, prepared as at April 17, 2012, should be read in conjunction with the audited financial statements and accompanying notes for the year ended December 31, 2011.

Forward-looking statements

This report contains forward-looking statements about certain matters that are by their nature subject to many risks and uncertainties, which may cause actual results to differ materially from the statements made herein. Forward-looking statements include, but are not limited to, WCB-Alberta objectives, strategies, targeted and expected financial results; and the outlook for WCB-Alberta's business and for the Alberta and global economies. Risks and uncertainties include, but are not limited to, changing market, industry and general economic factors or conditions; changes in legislation affecting WCB-Alberta policies and practices; changes in accounting standards; the ability to retain and recruit qualified personnel; and other risks, known or unknown. Some are predictable or within WCB-Alberta control; many are not. The reader is hereby cautioned to not place undue reliance on these forward-looking statements.

Unless otherwise indicated, all amounts shown are in millions of Canadian dollars. Numbers have been prepared for the first time under International Financial Reporting Standards (IFRS) for the year ended December 31, 2011. The comparative numbers for the year ended December 31, 2010 have been restated on an IFRS basis.

Business Overview

Corporate profile

Founded in 1918, WCB-Alberta is a not-for-profit organization with a legislative mandate under the *Workers' Compensation Act* (the Act) to administer the workers' compensation system for the province of Alberta. While accountable to the Minister of Alberta Human Services, WCB-Alberta is independently funded and operated as an insurance enterprise. Through the payment of premiums, over 146,000 employers fund the system, which covers more than 1.7 million workers.

WCB-Alberta's mandate

In Canada, workers' compensation is a no-fault disability insurance system that protects both employers and workers against the economic impact of work-related injuries and occupational diseases. Based on the Meredith Principles[1], the system covers injured workers for lost employment income and provides health care, rehabilitation and other services required because of a work-related injury, while employers are shielded from litigation. This system brings economic stability to the workplace through collective liability that minimizes the risks and expenses of injury. To achieve these objectives, the Act established the Accident Fund and imposed a statutory obligation on WCB-Alberta to ensure that it be fully funded.

At the highest and simplest level, WCB-Alberta is involved in two significant and complementary business activities: customer operations and financial management.

Customer operations provides disability insurance for workplace injuries. Key business processes include rate setting, assessment and collection of premiums from employers, payment of compensation benefits to injured workers, return-to-work services and administration.

Financial management uses an integrated risk-based approach to managing assets and liabilities, generating an adequate return on invested assets to pay for claim-related obligations. Key business processes include strategic financial planning, investment management, claim benefit liability valuation, financial risk management and financial performance reporting. Strong financial management not only ensures security of benefits for workers and fair premiums for employers, but also provides appropriate tools for evaluating how effectively WCB-Alberta is meeting its financial obligations.

WCB-Alberta vision and mission

The core principles set out in WCB-Alberta's vision and mission shape the corporate beliefs and values that guide the organization's operating philosophy:

> **Vision**
> *Albertans working—a safe, healthy and strong Alberta*
>
> **Mission**
> *WCB-Alberta, working together with our partners, will significantly and measurably reduce the impact of workplace illness and injury on Albertans.*

WCB-Alberta's strategic vision is to make a positive and lasting impact on the people, society and economy of Alberta through what it does, while the mission statement describes the guidelines for how it intends to conduct business.

[1] *Refer to the Glossary for an outline of the concepts.*

2011 Financial Performance

OPERATING HIGHLIGHTS

The major themes underscoring WCB-Alberta's financial results for the year centre on the Alberta economy and the global capital markets. WCB-Alberta maintained a sound financial position, despite continued uncertainty within capital markets. Customer operations continued their commitment to service excellence and a focus on return to work as Alberta's economy delivered strong growth. The important themes that underscore the 2011 performance include the following:

- WCB-Alberta's key business activities, represented through customer operations and financial management, yielded an operating surplus of $72.0 million in 2011, a decrease from a $460.4 million surplus in 2010. The year over year decrease was primarily due to lower equity market returns, and a decrease in surplus from customer operations as revenues and costs ended the year closer to budget expectations. The results in 2011 contributed to the Funded Position of $1,655.1 million, or 128.3%.
- Despite year over year growth of 8.5% in employer insurable earnings, premium revenue grew only marginally at 0.2% to $1,033.9 million in 2011, due to a 6.1% drop in the actual average premium rate in 2011 to $1.23, from $1.31 in 2010.
- Total claims and claims management expenses of $864.1 million increased $83.5 million from the previous year primarily due to increased claim volumes and associated costs related to health care and long term disability. Average claim duration increased again slightly in 2011, ending the year at 36.6 days, as lost-time claims grew slightly faster than available modified-work opportunities. Lost-time claim volume of 27,900 was up 9.4% from 2010.
- Investment revenue was down in 2011 at $287.8 million, compared to $644.3 million in 2010 as equity market returns significantly underperformed during the year. Despite the weak equity markets, WCB-Alberta's strategic focus to reduce exposure to equity risk, and better diversify the portfolio led to a return of 4.4%, which exceeded the benchmark return of 4.0%.
- Expenses associated with financial management were down in 2011 at $261.6 million, compared to $313.9 million in 2010 due to actuarial adjustments.

In its simplest terms, the funding model for WCB-Alberta operates on the premise that in a given year, rates are set to generate premiums to cover all operating costs on a break-even basis, while investment returns are expected to cover the annual interest requirement on the liability. Surpluses or deficits arise when actual costs and returns are different from forecast expectations, which rely on economic and business assumptions based on available information at a point in time. Given the volatile performance of local and global economies, forecasting is subject to a great deal of uncertainty and risk. Consequently, actual results will likely differ significantly from even the most rigorously developed plans.

The factors contributing to surpluses or deficits are better understood when our Statement of Comprehensive Income is reorganized to represent our operations as two significant and complementary business activities: customer operations and financial management. The tables on the opposite page represent this view, with the first presenting the major contributors to WCB-Alberta's operating surplus, and the second presenting the revenues and expenses that are associated with each business activity.

Sources of operating surplus

($ millions)	2011 Budget	2011 Actual	2010 Actual
Surplus from Customer Operations			
Premiums			
Surplus premium revenue resulting from the actual premium rate collected of $1.23 (2010 – $1.31) being higher than the required premium rate of $1.17 (2010 – $1.16), based on insurable earnings	$ 17.1	$ 47.4	$ 121.0
Other revenue (expense) items	5.8	(1.6)	9.0
	22.9	45.8	130.0
Surplus from Financial Management			
Investments			
Net excess of investment revenue over the claim benefit liability interest expense of $228.8 million (2010 – $259.0 million)	80.5	59.0	385.4
Interest on employee benefit liabilities	(2.8)	(4.5)	(3.8)
	77.7	54.5	381.6
Actuarial remeasurement			
Losses due to changes in actuarial methods and assumptions	-	(26.9)	(164.2)
Gains (losses) due to claims experience	87.0	(1.4)	113.0
	87.0	(28.3)	(51.2)
	164.7	26.2	330.4
OPERATING SURPLUS	$ 187.6	$ 72.0	$ 460.4

Operating surplus by business activity

($ millions)	2011 Budget	2011 Actual	2010 Actual
Customer Operations			
Premiums	$ 982.3	$1,033.9	$1,031.5
Claims and claims management	(829.6)	(864.1)	(780.6)
Corp admin and injury reduction	(129.8)	(124.0)	(121.0)
Surplus from Customer Operations	22.9	45.8	130.0
Financial Management			
Investment income	376.9	310.8	662.4
Investment management expense	(24.3)	(23.0)	(18.1)
Investment revenue	352.6	287.8	644.3
Interest expense on claim benefit liabilities	(272.1)	(228.8)	(259.0)
Remeasurement of claim benefit liabilities	87.0	(28.3)	(51.2)
Interest on employee benefit liabilities	(2.8)	(4.5)	(3.8)
Financial management expenses	(187.9)	(261.6)	(313.9)
Surplus from Financial Management	164.7	26.2	330.4
OPERATING SURPLUS	$ 187.6	$72.0	$460.4

Customer Operations

PREMIUMS

Insurable earnings

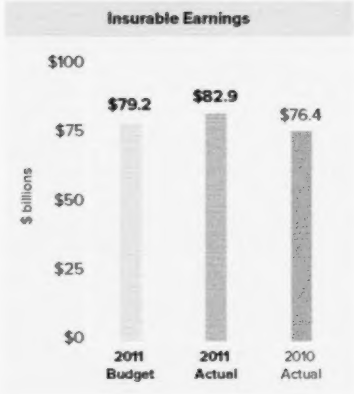
↗ $3.7 billion (4.7%) over budget

↗ $6.5 billion (8.5%) over prior year

Alberta's economy exhibited strong growth in 2011, which resulted in better-than-expected and year over year increases in payrolls due to both wage escalation and employment growth. 2011 insurable earnings of $82.9 billion were 4.7% higher than the budget of $79.2 billion, and 8.5% higher over 2010 of $76.4 billion.

Insurable earnings were higher in seven out of nine sectors, with mining, oil & gas (20.6%) and agriculture & forestry (7.6%) showing the highest increases compared to budget for the year.

Sectors that experienced the greatest increases over 2010 were mining, oil & gas (13.7%) and agriculture (15.4%).



Premium revenue

↗ $51.6 million (5.2%) over budget

The 2011 positive budget variance in premium revenue of $51.6 million was consistent with the positive budget variance in insurable earnings. Contributing sectors were mining, oil & gas; municipal government, education, & health; and transportation, with offsets in construction and manufacturing.

↗ $2.4 million (0.2%) over prior year

Despite year over year growth of 8.5% in employer insurable earnings, premium revenue grew only marginally at 0.2% to $1,033.9 million in 2011, due to a 6.1% drop in the actual average premium rate in 2011 to $1.23, from $1.31 in 2010.

PREMIUM RATES

Total premium revenue requirements for rate-setting purposes are based on projected expenses for the year. Base revenue requirements are composed of fully funded costs of claims arising in the current year, administration costs related to those claims, general administration expenses for WCB-Alberta operations and transfer levies.

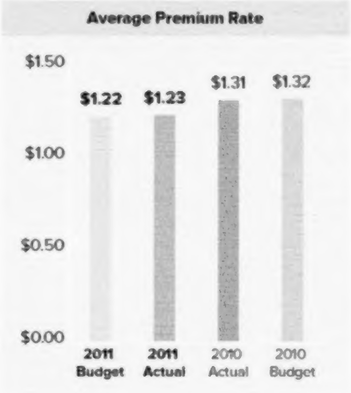
Average premium rate

$0.01 (0.8%) over budget

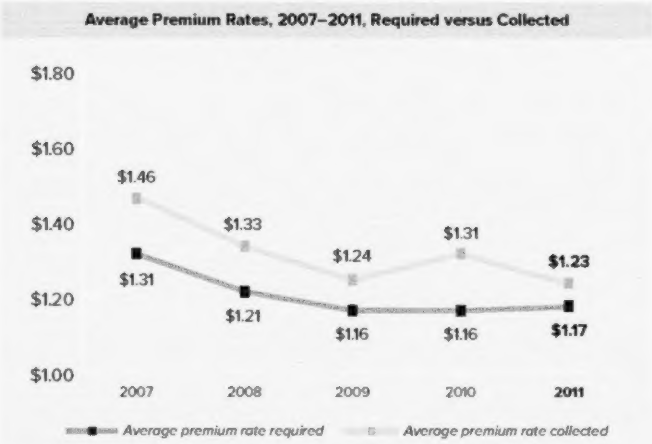
The actual average premium rate of $1.23 was comparable to the average budgeted premium rate of $1.22.

$0.10 (-7.6%) budget reduction from prior year

The reduction from $1.32 to $1.22 in the average budget rate is reflective of the projected increase in insurable earnings and a projected decrease in base revenue requirements for 2011.



The chart presents a five-year trend comparison of required versus collected premium rates. The Funding Policy stipulates that the required rate and resulting revenue cover the current-year fully funded claim costs, administration expenses and transfer levies.



The 2011 premium requirement and rate were based on projected base revenue requirements and insurable earnings using the best information available in early Q4 2010. The surplus from premium revenue offset the unfavourable variance in claim costs, resulting in a marginal increase in surplus from customer operations.

CLAIMS AND CLAIMS MANAGEMENT EXPENSES

Claim expenses are an estimate of current and future costs arising from compensable injuries occurring in 2011, and the future costs to administer these claims.

Claims and claims management expenses

$34.5 million (4.2%) higher than budget

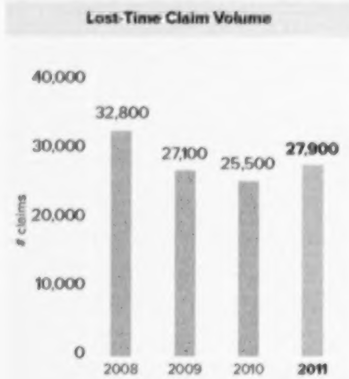
$83.5 million (10.7%) higher than prior year

Claims and claims management expenses were higher than budget and prior year due to increased claim volumes and associated costs primarily related to health care and long-term disability.

Lost-time claim volume

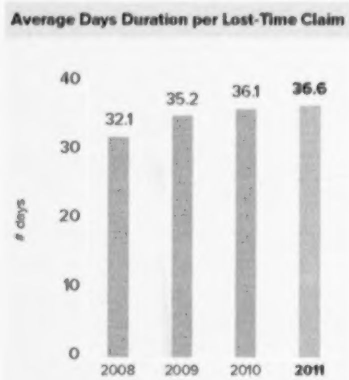
Lost-time claim (LTC) volume rose from 25,500 in 2010 to 27,900 in 2011, an increase of 9.4%.

The rise in LTCs coincided with an increase in covered workers of approximately 84,000. The LTC projected rate rose from its 2010 low of 1.49 to 1.56 claims per 100 workers in 2011, an increase of 4.7%. Similarly, the disabling-injury rate (LTC + modified-work-only cases = disabling injuries) rose by 1.8%, to 2.78 disabling injuries per 100 workers.



Claim duration

Claim duration (average elapsed time from injury to return to work) increased slightly in 2011 to 36.6 days, up from 36.1 days in 2010. This increase was primarily due to lost-time claims growing slightly faster than modified work opportunities during the year.



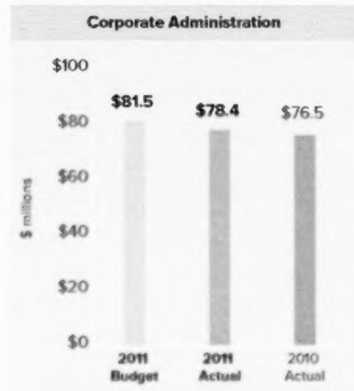
CORPORATE ADMINISTRATION

$3.1 million (3.8%) under budget

Corporate administration came in under budget due to effective expenditure management.

$1.9 million (2.4%) higher than prior year

The increase over 2010 reflects inflationary impacts. Corporate administration expenses exclude costs for administrating claims (2011 – $87.2 million, 2010 – $83.2 million) that are included in claims management expenses.



Financial Management

INVESTMENTS

Investment revenue

$64.8 million (18.4%) under budget

$356.5 million (55.3%) under prior year

Investment revenue was lower than budget and prior year primarily due to lower equity market returns for 2011. In 2011, the portfolio earned a nominal market rate of return of 4.4% as compared to 10.2% in 2010.

Investment returns played a key role in WCB-Alberta's 2011 financial results. The following discussion provides an overview of the economic and market forces that had a direct impact on WCB-Alberta's investment portfolio and returns.

Capital markets overview

2011 was another year of uncertainty and large swings in sentiment and capital market performance. Politics played a bigger role than usual as the debt ceiling debacle in the U.S., and ongoing issues in Greece and other peripheral European countries dominated market news. As year-end approached, there were some signs of economic recovery in the U.S. New monetary stimulus from the U.S. Federal Reserve and European central bank provided funding to banks, boosted liquidity generally and capital markets responded positively. Interest rates remained very low and this provided gains to bonds and pushed up valuations on other assets with high income, such as real estate.

Portfolio performance

Market returns

The portfolio earned a nominal market rate of return of 4.4% for 2011 (0.4% above the policy benchmark) and 2.7% for the four-year period ended December 31, 2011 (on par with policy benchmark). The primary goal of the investment portfolio is to earn a real rate of return (nominal rate less inflation) that meets or exceeds the actuarial real rate of return (referred to as the real discount rate). On this basis, the real rate of return for 2011 of 2% (nominal rate of 4.4% less inflation of 2.4%) was below the actuarial required rate of 3.0%.

For further information on WCB-Alberta's Investments and Investment Policy, the *2011 Annual Investment Report* can be found online at www.wcb.ab.ca.

CLAIM BENEFIT LIABILITIES

At the end of each fiscal year, WCB-Alberta determines its claim benefit liabilities for all injuries that have taken place up to that date. These liabilities represent the actuarial present value of all future benefit and related administration costs, excluding costs attributable to self-insured employers. As at December 31, 2011, claim benefit liabilities had aggregated to $5,628.5 million, an increase of $349.6 million over 2010.

Significant changes in liabilities

The overall $349.6 million increase in claim benefit liabilities was attributable to the following:

($ millions)	2011 changes
Customer Operations related	
Provision for future costs of current-year injuries	$ 606.1
Benefit payments for prior years' injuries	(521.0)
Policy changes	7.4
	92.5
Financial Management related	
Interest expense on the liability	228.8
Changes in actuarial methods and assumptions	26.9
Claims experience loss	1.4
	257.1
	$ 349.6

Actuarial methods and assumptions

The following actuarial methods and assumptions changes increased claim benefit liabilities by $26.9 million:

- The real rate of return assumption was revised to reflect a continuation of lower than expected bond yields. This resulted in an extension to the short term 2-stage assumption of 2% for the period from 2012 to 2015, and 3% thereafter ($35.6 million increase).
- Updates were made to other assumptions ($8.7 million decrease).

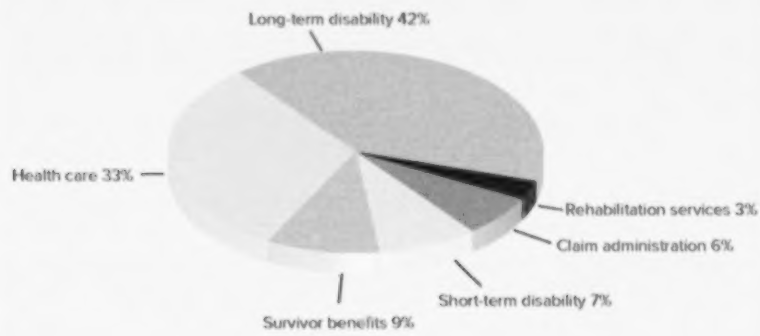
Impact of claims experience

Differences between actual experience and what was expected in the prior valuation result in experience losses (which increase the liability) or gains (which decrease the liability). The impact of actual claims experience resulted in an overall loss of $1.4 million that arose from the following areas:

($ millions)	2011 impact
Actual cost-of-living and inflation different than expected	$ 21.0
Actual claim costs higher than expected	12.2
Experience gains from other sources	(31.8)
	$ 1.4

The following chart shows the breakdown of the claim benefit liabilities as at December 31, 2011, by benefit type:

Claim Benefit Liabilities, December 31, 2011



FUNDING POLICY

The Funding Policy is the primary instrument through which WCB-Alberta manages its capital or fund structure and provides direction for setting premium rates and optimum funding level. The Funding Policy can evolve—through rigorous management review, stakeholder consultation and Board of Directors approval—to address changing economic and financial circumstances. Details of the Funding Policy may be found under WCB Information in the Policy and Legislation section of WCB-Alberta's website at www.wcb.ab.ca.

Funding principles and objectives

The strategic aim of funding and investment policies is to strive for balance between financial risk (i.e., volatility), investment returns and funding stability. Specifically, the Funding Policy embodies these financial objectives:

- Minimize the risk of becoming unfunded.
- Minimize cost volatility to employers.
- Charge premiums that reflect the cost of current-year claims.

The funding mechanisms that evolve from these objectives address those risks that may affect the financial stability of WCB-Alberta—primarily investment volatility. Funding Policy rules are in place to minimize these risks, with ongoing monitoring and evaluation to ensure they continue to respond effectively to changing economic conditions.

Funding rules

The rules guiding financial decisions under the Funding Policy include the following

- Premium-rate design based on current-year fully funded claim costs (i.e., full cost recovery with no rate subsidization or smoothing)
- Minimum premium cost to employers set at 60% of industry-rated premiums
- Multiple target ranges to guide funding decisions and accommodate volatility
- Surplus distribution or fund replenishment levy used as funding adjustment mechanisms

These rules help achieve equity and consistency in the attribution of costs among employers and ensure intergenerational equity by requiring current employers to cover the cost of current-year injuries.

Funding allocations

The Accident Fund represents all WCB-Alberta assets available to discharge its legislative mandate. The allocation of assets to each of WCB-Alberta's fiduciary obligations is expressed as a percentage of total liabilities as at the reporting date:

- Fully funded status is achieved when assets are sufficient for payment of all current and future compensation and related administration costs (target level: 100%).
- Assets are retained in the Fund Balance to lessen the risk of becoming unfunded and in the Occupational Disease Reserve (ODR) to provide for significant unforeseen costs related to latent occupational disease.

The Accident Fund is considered fully funded when it is within the Funded Ratio target range of 114% to 128%. Surplus assets exceeding the 128% funding level are available for distribution to employers as a surplus distribution, whereas replenishment levies would be required if assets fall below 114%.

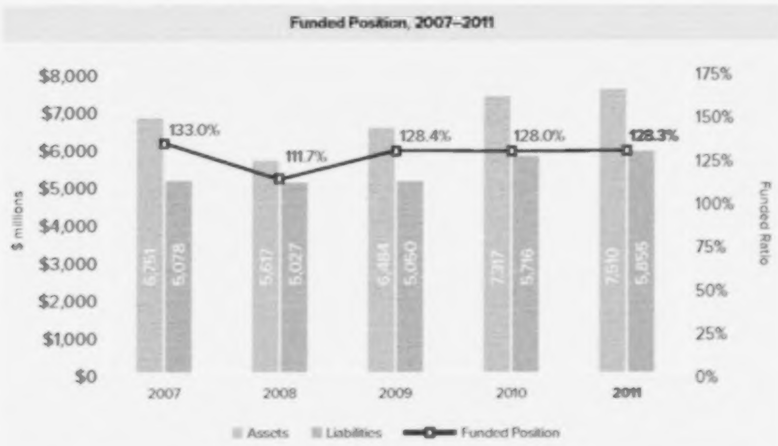
Funded Position

The major changes in Funded Position and the ending balance as at December 31, 2011 were:

($ millions)	Opening	2011 Change	Ending
Accumulated surplus for the year	$ 1,305.7	$ 73.4	$ 1,379.1
Occupational Disease Reserve maintenance funding	-	(21.0)	(21.0)
Accumulated surplus for the year	1,305.7	52.4	1,358.1
Accumulated other comprehensive loss	(21.4)	(19.3)	(40.7)
Fund Balance	1,284.3	33.1	1,317.4
Occupational Disease Reserve	316.7	21.0	337.7
Funded Position	$ 1,601.0	$ 54.1	$ 1,655.1

As at December 31, 2011, the Funded Ratio (total assets to total liabilities) was 128.3%, compared to 128.0% at the end of 2010. Viewed from another perspective, WCB-Alberta has total assets of $7.5 billion to cover its total estimated liabilities of $5.9 billion. The Funded Position remains positive and at the top of the target range recommended in the Funding Policy.

The chart below presents the Funded Position from 2007 through 2011*.



*2007-2009 are calculated based on Canadian GAAP; 2010 and 2011 are calculated based on IFRS, consistent with the accompanying financial statements and notes.

Risk Management

OVERSIGHT

Under WCB-Alberta's corporate governance structure, the Board of Directors is responsible for overall risk management. The executive team, which has a mandate to identify and manage enterprise-level risk, is assisted by the Risk Management Committee, composed of a group of senior managers with responsibility for risk identification, assessment and mitigation at the operating level.

RISK ASSESSMENT

WCB-Alberta has three primary processes for managing risk in the corporation. First, risk management is embedded as an inherent function of day-to-day business. Major projects and changes to business processes must go through a documented risk analysis to assess risk and identify mitigation plans and controls to lessen the likelihood or impact of these risks. The second process is to complete a systematic and comprehensive risk assessment of emerging corporate risks as they develop throughout the year. Finally, WCB-Alberta also completes an annual corporate risk assessment that engages departmental management teams and senior managers to develop a comprehensive organizational risk register. The executive team prioritizes those risks with the highest potential residual impact to WCB-Alberta and selects a number for comprehensive risk assessment and mitigation.

SIGNIFICANT RISKS

WCB-Alberta has identified the following risk exposures that could have significant impact on the organization and its operations.

Benefit cost risk

Many of WCB-Alberta's claim-related benefits are subject to external factors that have potentially significant impacts on the amount and duration of related benefit costs. These risks and uncertainties are driven largely by economic conditions such as health care inflation and utilization, and wage growth; however, other factors may arise through administrative precedents established through the appeals process, legislative changes or from new medical findings for occupational disease, among others. All these factors add significant uncertainty to WCB-Alberta's cost structure and may impose, over time, significant pressures on the funding model.

Fraud-related risk

Every year, WCB-Alberta collects approximately one billion dollars in premium revenue and distributes or reserves a similar amount for claim benefits and administrative costs. The magnitude of these costs and the number of individuals and companies involved in these processes—approximately 146,000 employers, 200,000 claimants and thousands of service providers—creates inherent risk for fraud. WCB-Alberta employs an extensive audit program to monitor the organization's ability to protect against fraud and implements additional controls, as required, to strengthen WCB-Alberta's management of fraud risk.

Funding risk

Managing the components of WCB-Alberta's overall Funded Position (Fund Balance and ODR) is a complex process that involves forecasting, liability projection, investment management and operational performance. Although these processes are within management's influence or control, many of the assumptions used in forecasting involve significant uncertainty regarding the future. Asset-liability management continues to be enhanced to provide better systems, tools, processes and information to enhance forecasting, financial-planning and decision-making processes within WCB-Alberta.

Investment risk

In its investment portfolio, WCB-Alberta is exposed to financial risk, which includes market and credit risk, among others. Market risk is the risk that the fair value of investments and/or associated cash flows may change because of changing general economic conditions or events that broadly impact capital markets. Credit risk is the potential of a debt issuer or counterparty in a financial contract to default on its obligation to WCB-Alberta. Details of financial risks related to investments are discussed in Note 6, Investment Risk Management, in the accompanying financial statements and notes.

Premium risk

WCB-Alberta has exposure to premium risk, which is the risk that premiums set for the coming fiscal period will not be sufficient to cover the operating costs in that year. These risks and uncertainties are largely driven by provincial economic conditions such as employment growth and wage escalation. To manage premium-pricing risk, WCB-Alberta has instituted a comprehensive forecasting program that leverages widely accepted economic-forecasting sources such as the Conference Board of Canada.

Technology risk

To support its core business processes, WCB-Alberta uses a number of information systems for processing transactions and maintaining claimant and employer information. If these systems were to fail or were compromised, significant disruption to business processes and customer service could result. To mitigate technology risk, WCB-Alberta maintains a business continuity plan, system controls and backup systems to prevent processing failures and provides extensive training to develop internal system expertise.

Implications of Accounting Policies and Estimates

The adoption of accounting policies in accordance with International Financial Reporting Standards (IFRS) requires that management make judgments, assumptions and estimates that could significantly affect the results of operations and WCB-Alberta's financial condition. The following discusses those significant accounting policies that entail significant use of judgment and estimates that may have a material effect on current and future financial statements.

Premiums

In advance of the fiscal year, and based on Funding Policy and projections in the Three-Year Plan, WCB-Alberta estimates the total premium amount necessary to cover estimated claims costs, transfer levies, administration expenses and funding requirements. Because premium rates are set well in advance of revenue being realized, they reflect WCB-Alberta's expectations of future macroeconomic and business conditions that will likely change before and during the fiscal period. Consequently, the premiums collected may be more or less than the estimated funding requirements, and the difference could be significant in periods of economic volatility or uncertainty.

Investments

Investment assets are financial instruments and are measured at fair value at each reporting date. The primary purpose of investments are to maintain capital and generate investment income over the long term. Fair value measurement, which reflects realizable market value, could lead to significant volatility in the statement of financial position during periods of capital market turbulence, including volatility in the funded ratio, and possibly premium rates. Details of the investment assets and inherent risk associated with holding such investments can be found in Note 5, Investments, and in Note 6, Investment Risk Management, in the accompanying financial statements and notes.

Derivatives

The fair value of a derivative contract is its change in value with respect to the change in the underlying security or reference index to which the contract is linked. Gains and losses on derivative contracts are recognized in income in the periods in which they arise. Since the fair value of a derivative is exposed to market changes, the underlying derivative positions could be volatile as well. Additional details may be found in Note 6, Investment Risk Management in the accompanying financial statements and notes.

Valuation of claim benefit liabilities

WCB-Alberta has significant obligations extending well into the future for compensation benefits to injured workers. WCB-Alberta applies the actuarial present-value methodology for its claim benefit liabilities. The actuarial process projects benefit cost streams into the future and discounts them to present value using a discount rate linked to the return on investment assets funding those liabilities. Measurement uncertainty is high because assumptions regarding the amount, timing and duration of the benefit commitments and future return on assets are difficult to predict accurately and are influenced by external factors outside management's control. Consequently, the selection of one assumption over another in estimating claim benefit liabilities could have a material impact on the liability valuation.

Valuation of employee benefit liabilities

Under IFRS, WCB-Alberta has applied defined benefit accounting for employee pension plans, which requires an actuarial determination of benefit obligations extending well into the future for pension benefits to employees. The actuarial process projects benefit cost streams into the future and discounts them to present value using a discount rate linked to market yields on high quality corporate bonds with similar characteristics as the liabilities. Measurement uncertainty is high because those assumptions regarding the amount, timing, and duration of future benefit commitments are difficult to predict accurately and are influenced by factors outside management's control. Details of WCB-Alberta's multi-employer and sponsored defined benefit plans may be found in Note 10, Employee Benefits, in the accompanying financial statements and notes.

Governance and Compliance

Legislative authority

Under the authority of the *Workers' Compensation Act*, WCB-Alberta is a provincial board-governed organization that operates independently while reporting to the Minister of Alberta Human Services (the Minister).

Internal control over financial reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting (ICOFR) to provide reasonable assurance regarding the reliability of the entity's financial reporting and the preparation of its financial statements in accordance with IFRS. WCB-Alberta has developed a framework and plan for the overall ICOFR program. The framework is based on best practices under the COSO[ii] and COBIT[iii] frameworks. The ICOFR program is assisted by WCB-Alberta's Management Audit Services group and is reviewed by the Office of the Auditor General during the annual financial audit. The plan is updated annually to include a review of previously completed control assessments, and the completion of new control assessments, taking into account both risk and materiality.

Accountability Framework reporting

Through consultation with the Minister and stakeholders, the Accountability Framework was approved in 2002 to provide Albertans with a set of supplementary measures that compare actual WCB-Alberta results to established standards and/or industry benchmarks. These measures cover such areas of WCB-Alberta operations as communications with stakeholders; client satisfaction; consistency, clarity and fairness of claim decisions; timeliness and effectiveness of WCB-Alberta services; and financial capability and effectiveness of injury prevention programs. The Office of the Auditor General reviews the reported measures for reliability, understandability, comparability and completeness. The *2011 Accountability Framework: Supplementary Measures Report* can be viewed at www.wcb.ab.ca.

Business planning

An important aspect of financial planning and budgeting is linkage to WCB-Alberta's strategic plan and the resulting corporate objectives developed each year in support of the strategic plan. These objectives and the related performance indicators set the direction for the organization and identify the significant areas of focus for the coming year. The *2012 Budget and 2012–2014 Financial Plan* establishes the foundation for appropriate resource allocation for achieving the corporate objectives. A copy of the plan can be viewed at www.wcb.ab.ca.

[ii] *Committee of Sponsoring Organizations of the Treadway Commission, which developed a governance framework for internal control.*
[iii] *Control Objectives for Information and Related Technology, a collection of best practices for IT governance, control and assurance.*

Emerging Issues

INTERNATIONAL FINANCIAL REPORTING STANDARDS

Effective January 1, 2011, publicly accountable enterprises in Canada were required to prepare their financial statements in accordance with International Financial Reporting Standards (IFRS). As such, WCB-Alberta's financial statements have been prepared for the first time under IFRS for the year ended December 31, 2011.

For complete details of WCB-Alberta's First-time Adoption of IFRS, including reconciliation from Canadian GAAP financial statements, see Note 20, Transition to IFRS, in the accompanying financial statements and notes.

Future IFRS Developments
WCB-Alberta continues to monitor the landscape for future IFRS developments. Key accounting standards that are currently under review by the standard setters are noted below. These may have significant implications for WCB-Alberta results, depending on the outcome. WCB-Alberta will continue to monitor future IFRS changes to ensure impacts are understood and implemented as required in order to ensure high-quality financial reporting under IFRS.

- ***Exposure Draft – IFRS 4 Insurance Contracts – Phase II***
  This draft proposes a number of changes, primarily focused on the measurement of claim liabilities. Most significant to WCB-Alberta would be the requirement to apply a market-based discount rate for the valuation of claim benefit liabilities. Potential implications, particularly during periods of interest rate instability, are volatile liabilities and volatility in the funded ratio, and possibly premium rates, with further implications for funding decisions. Release of the new standard is unknown at this time as the International Accounting Standards Board re-deliberates feedback on the first exposure draft.
- ***Leases***
  Under existing IAS 17 Leases, operating leases are treated as rental expense as incurred. Changes propose to recognize all lease contracts as assets and liabilities in the financial statements. A re-exposure draft is expected to be released for comment in Q2, 2012; no date has been announced for final draft or a targeted effective date. The financial impact to WCB-Alberta is not expected to be significant.

NEW ACTUARIAL STANDARDS OF PRACTICE

Effective for valuation dates on and after December 31, 2014, a new standard of the Canadian Institute of Actuaries (issued February 2011) will require that actuarial valuations include an allowance for all long latency occupational disease claims expected to arise in the future as a result of past exposures. WCB-Alberta is currently assessing the implications of implementing this requirement, and is still evaluating if this new standard will require a change to its accounting policies for recognition of this liability. Adoption of this standard for its claim benefit liabilities would have a material impact on the WCB-Alberta's reported financial position as the amount could exceed $500 million.

Looking Ahead

Looking forward to 2012, WCB-Alberta will be challenged to manage its business in light of global economic uncertainty. WCB-Alberta's business priorities are to build on operational and financial strategies that have contributed to its organizational success. Management will closely monitor economic and operating trends to develop proactive and measured responses to emerging business issues.

Economic outlook

Alberta's economy is poised to lead the nation in economic growth in 2012, based on a stable economic outlook. Despite a global economic slowdown led by Europe, Alberta achieved estimated economic growth in 2011 of 3.5%.[iv] In Alberta, economists are viewing 2012 with optimism based on continued growth in the energy sector. WTI[v] oil prices averaged US$97 a barrel in 2011 and have continued to fluctuate around US$100 a barrel in early 2012. Both manufacturing and transportation will benefit from increased oil production; however, overall growth in the energy industry will be tapered by weaker natural gas prices. Alberta's economic growth has contributed to it having the highest provincial population growth, increasing 11% from 2006 to 2011.[vi] The influx of migration from central and eastern Canada is anticipated to continue in the near term given these regions' economic struggles. Economists are predicting employment growth of 2.7% in the province, which translates to 57,000 jobs in 2012.[vii] Due to these factors, WCB-Alberta is forecasting continued growth in insurable earnings for 2012.

After posting a 4.5% increase in 2010, average weekly earnings increased by 4.6% through 2011.[viii] The increase in average weekly earnings was due partially to the rise in the number of hours worked and partially to increases in hourly wages. This was supported by Statistics Canada's Labour Force Survey which reports that the average hourly wage rate in Alberta rose by just 1.7% in 2011, while the remaining growth in earnings came from a 5.8% increase in hours worked.[ix] Moving ahead, falling unemployment and rising economic activity levels in Alberta will provide a likely setting for both wages and hours worked to increase. It is anticipated that wage growth in Alberta, as measured by growth in average weekly earnings, will be 3.5% in 2012.

In 2012, the largest source of downside risk to Alberta's economy is from the potential of a worldwide economic slowdown. Canada is a relatively small economy and is not immune to global economic forces. The U.S. economy has positive momentum heading into 2012, but concerns remain about the effects of long-term unemployment and underemployment.[x] Despite the mixed signals emerging from the U.S., the largest concern continues to be the Euro Zone and its potential for recessionary contagion into the rest of the world. Ultimately, the general consensus is for moderately positive but volatile global growth in 2012, stemming from growth in the U.S., a slowing but still strong growth in China, and contraction in the Euro Zone.[xi]

Capital market outlook

The capital market outlook continues to be very uncertain heading into 2012. An economic recovery appears to be unfolding in the United States while Europe seems to be heading into a minor recession. Asia and emerging markets continue to grow strongly and more than offset the impact of Europe. Overall, this is an environment of overall positive global growth, which is positive for equities and commodities. The biggest risk to an optimistic outlook is high energy prices, which are benefiting regions that produce energy but are increasingly becoming a negative influence on consumer confidence and spending. Potential conflict in the Middle East, specifically with Iran, could put further upward pressure on energy prices, which would have a significant impact on global economic growth.

[iv] *Government of Alberta (2012) Budget 2012. Economic Outlook.*
[v] *West Texas Intermediate Crude*
[vi] *Statistics Canada (2012). The Canadian Population in 2011: Population Counts and Growth (2012).*
[vii] *Government of Alberta (2012) Budget 2012. Economic Outlook.*
[viii] *Statistics Canada, Table 2810028 (March 2012). Survey of Employment, Payrolls and Hours (SEPH).*
[ix] *Statistics Canada, Table 2820071 (February 2012). Labour Force Survey (LFS).*
[x] *Bernanke, Ben (February 3, 2012). Senate Budget Committee*
[xi] *Bloomberg (2012). Contributor Composite Forecasts*

Equity markets took a pause in 2011, and could rebound in 2012, however, corporate profit margins are at all time highs and overall positive but slow economic growth should keep equity returns to modest positive gains. Bond yields are near historic low levels, which will translate into very modest returns from bond investments over the next three to five years.

In the longer term, the key issue for markets and for investors like WCB-Alberta, which have inflation-sensitive liabilities to pay, is the probability of periods of high inflation. The stimulus amount, both monetary and fiscal, that has been and continues to be injected into the financial system and the global economy, may lead to a period of higher-than-expected inflation. This issue is probably still a few years away, as there is currently too much slack in labour markets (high unemployment and underemployment) and low levels of capacity utilization for inflation to be a near-term concern.

Forecasting short-term market performance is difficult at best. Studies show that investors typically cause themselves more harm than good by trying to time short-term capital market movements. WCB-Alberta is a long-term investor with a strong financial position. This allows for patience and the ability to stay committed to proven investment principles and beliefs.

The total portfolio return for 2012 has been set at 5.2% for planning purposes; however, continued market volatility suggests the actual returns for 2012 may be significantly different from the planning assumptions.

Business outlook

Customer operations

On the customer operations front, our strategic plan continues to keep us anchored to the fundamentals of our business: return to work.

Modified work opportunities continued to grow in 2011 as more employers than ever were able to arrange modified work for their employees. WCB-Alberta's modified work program has helped injured workers take advantage of on-the-job rehabilitation, while giving employers the chance to support and keep their valued employees. In 2012, we expect the momentum on modified work to continue and grow by approximately 5%. Our focus will continue on return-to-work outcomes through improved shoulder injury rehabilitation methods, suitable modified work and return to work with alternate employers wherever pre-injury employers no longer have jobs available.

The frequency with which individuals are needing help finding a new job (vocational rehabilitation services and benefits) stabilized in 2011, however, remains relatively high compared with the last five years. This number should start to decline in 2012 as the economy continues to improve.

Looking ahead, WCB-Alberta will continue to work closely with injured workers, physicians, employers, unions and others to create return-to-work opportunities customized to meet workers' unique needs. The main goal will be to ensure workers return to work as quickly, safely and successfully as possible.

Financial management

Financial management is based on an investment policy derived from asset-liability studies that consider the year-by-year liabilities of the fund together with the probabilities of associated stock, bond and real estate returns. This results in an allocation to stocks, bonds and other assets that changes moderately from year to year and generally performs well notwithstanding some volatility from year to year.

The Investment Policy's long-term direction is toward more inflation-sensitive assets, which will lower volatility further, yet provide a level of return over the long run, which will contribute to the continued financial strength of the fund.

2012 premium rate

In 2012, the average premium rate will remain at $1.22 per $100.00 of insurable earnings. Insurable Earnings (IE) is forecast to grow by 6.7% to $86.1B, and is based on the overall assumption of a slow and steady recovery, assuming both higher wages and employment.

With all Workers' Compensation Boards in Canada having announced their premium rates for 2012, WCB-Alberta continues to have the lowest average rate. Alberta's premium rates have been among the lowest in Canada throughout the past decade.

Outlook for financial condition

At the end of 2011, WCB-Alberta's funded ratio was 128.3% (assets over liabilities). Given economic uncertainty, the volatility of investment returns, and the potential adoption of new actuarial standards related to occupational diseases, it is difficult to determine, with any certainty, the WCB-Alberta's funding position into the future. Despite these uncertainties, WCB-Alberta's broad based risk management framework has been designed to mitigate, where possible, these economic and capital market uncertainties.

Facing the future

The Alberta economy experienced considerable improvement in 2011, with Alberta employment and WCB-Alberta covered worker figures up over 2010. In response to favourable momentum within the macro environment, WCB-Alberta witnessed encouraging improvements in the area of return to work, particularly as modified work opportunities began to open up. Part of the success realized in 2011 stems from the sustained and proactive dialogue between WCB-Alberta staff, injured workers, and employers regarding the value of on-the-job rehabilitation. Keeping workers and employers engaged in the case planning process is vital to the success of return-to-work initiatives, and will remain a central strategic focus throughout 2012. Moving forward, we expect to:

- Identify timely, suitable and safe return-to-work solutions within the context of sector specific economic revitalization;
- Maintain our focus on effective financial management strategies to manage a balanced fund that protects the security of worker benefits; and
- Work with Alberta's employers on developing effective return-to-work programs and on fostering accountability through pricing initiatives.

Overall, 2012 looks positive as we work with our partners to leverage an improving economy for the benefit of the workers' compensation system.

WCB-Alberta

2011 Financial Statements

For the year ended December 31, 2011

Financial Statements

Notes to the Financial Statements

Responsibility for Financial Reporting

The financial statements of the Workers' Compensation Board – Alberta were prepared by management, which is responsible for the integrity and fairness of the data presented, including significant accounting judgements and estimates. This responsibility includes selecting appropriate accounting principles consistent with International Financial Reporting Standards.

In discharging its responsibility for the integrity and fairness of the financial statements, management maintains the necessary internal controls designed to provide reasonable assurance that relevant and reliable financial information is produced and that assets are properly safeguarded. The effectiveness of controls over financial reporting was assessed and found to provide reasonable assurance that internal controls at December 31, 2011 operated effectively with no material weaknesses in the design or operation of the controls.

The Board of Directors is responsible for overseeing management in the performance of financial reporting responsibilities and has approved the financial statements included in the annual report.

The Board of Directors is assisted in its responsibilities by its Audit Committee. This committee reviews and recommends approval of the financial statements and meets periodically with management, internal and external auditors, and actuaries concerning internal controls and all other matters relating to financial reporting.

Eckler Ltd. has been appointed as the independent consulting actuary to the WCB. Their role is to complete an independent actuarial valuation of the claim benefit liabilities included in the financial statements of the WCB and to report thereon in accordance with generally accepted actuarial practice.

The Office of the Auditor General, the independent auditor of the WCB, has performed an independent audit of the financial statements of the WCB in accordance with Canadian generally accepted auditing standards. The Independent Auditor's Report outlines the scope of this independent audit and the opinion expressed.

Fauzia Lalani	**Guy R. Kerr**	**Ron J. Helmhold, CA**
Acting Chair, Board of Directors	President & Chief Executive Officer	Chief Financial Officer
Workers' Compensation Board – Alberta	Workers' Compensation Board – Alberta	Workers' Compensation Board – Alberta

Independent Auditor's Report

AUDITOR GENERAL Alberta

To the Board of Directors of the Workers' Compensation Board – Alberta

Report on the Financial Statements

I have audited the accompanying financial statements of the Workers' Compensation Board-Alberta, which comprise the statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010 and the statements of comprehensive income, statements of changes in funded position and statements of cash flows for the years ended December 31, 2011 and December 31, 2010, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audits. I conducted my audits in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained in my audits is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Board as at December 31, 2011, December 31, 2010 and January 1, 2010 and its financial performance and cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without modifying my opinion, I draw attention to note 11 of the financial statements describing the change in actuarial standards relating to long latency occupational disease claims.

[Original signed by Merwan N. Saher, CA]

Auditor General

April 24, 2012

Edmonton, Alberta

Eckler
CONSULTANTS + ACTUARIES

Actuarial Statement of Opinion
on the Valuation of the Benefits Liabilities of the Workers' Compensation Board – Alberta as at December 31, 2011

I have completed the actuarial valuation of the benefits liabilities of the Workers' Compensation Board – Alberta (WCB) for the financial statements of the WCB as at December 31, 2011. In my opinion, the actuarial liabilities of $5,628.5 million make reasonable provision for future payments for short term disability, vocational rehabilitation, long term disability, survivor and health care benefits, as well as claims administration costs, on account of claims that occurred on or before December 31, 2011; it does not include a provision for future claims arising from latent occupational disease or for benefits and payments that are on a self-insured basis.

The valuation was based on the provisions of the *Workers' Compensation Act* of Alberta and on the WCB's policies and administrative practices in effect at the time of the valuation. The impact of the recent changes in Regulation for Firefighters' Primary Site Cancer and in policy for funeral and related benefits has been considered.

The data on which the valuation is based were provided by the WCB; I applied such checks of reasonableness of the data as I considered appropriate, and have concluded that the data are sufficiently reliable to permit a realistic valuation of the liabilities and that the data are consistent with WCB's financial statements. In my opinion, the data on which the valuation is based are sufficient and reliable for the purpose of the valuation.

The economic assumptions adopted for purposes of computing the liabilities are consistent with the WCB's funding and investment policies. For this valuation, an annual real rate of return of 2.00% for 2012 to 2015 and 3% thereafter was used to discount expected payments subject to inflation, a change from the 2.00% for 2011 to 2014 and 3.00% thereafter in the previous valuation. Other economic assumptions underlying the calculations are annual changes in the Consumer Price Index (CPI) of 2.50%, increase for benefits subject to cost of living adjustments at CPI minus 0.50%, as well as health care costs and vocational rehabilitation benefits assumed to grow at annual rates of 6.00% and 3.50% respectively. In my opinion, the assumptions are appropriate for the purpose of the valuation.

The methods and assumptions employed in the valuation were consistent with those used in the previous valuation, after taking account of changes in claim patterns. Projections of future claim payments and awards have been made using factors developed from the WCB's claims experience, mortality and other assumptions. In my opinion, the methods employed in the valuation are appropriate for the purpose of the valuation.

Changes to the actuarial basis (i.e. actuarial methods and assumptions) caused liabilities to increase by $26.9 million. The revision of the real rate of return assumption represented an increase of $35.6 million, while updates made to other assumptions reduced liabilities by $8.7 million. Details of the data, actuarial assumptions, valuation methods and analysis of results are set out in my actuarial report as at December 31, 2011, of which this statement of opinion forms part.

In my opinion, the amount of the benefits liabilities makes appropriate provision for all personal injury compensation obligations and the financial statements fairly represent the results of the valuation. This report has been prepared, and my opinions given, in accordance with accepted actuarial practice in Canada.

Richard Larouche

Richard Larouche, FSA, FCIA
Actuary
Eckler Ltd.
April 17, 2012

Workers' Compensation Board – Alberta

Statements of Financial Position

As at December 31

($ thousands)	Notes	2011	2010	January 1 2010
ASSETS				
Cash and cash equivalents	19(a)	$ 368,548	$ 362,105	$ 100,722
Trade and other receivables	19(b)	51,790	34,589	6,349
Investments	5	7,017,791	6,854,656	6,318,593
Property, plant and equipment	7	47,070	42,525	36,272
Intangible assets	8	24,481	23,225	26,561
		$ 7,509,680	$ 7,317,100	$ 6,488,497
LIABILITIES				
Trade and other liabilities	19(c)	$ 46,858	$ 43,349	$ 57,807
Surplus distributions	19(d)	850	230,128	500
Safety rebates	19(e)	73,327	81,204	71,445
Employee benefits	10	105,058	82,591	59,611
Claim benefits	11	5,628,500	5,278,900	4,907,000
		5,854,593	5,716,172	5,096,363
FUNDED POSITION				
Fund Balance	4	1,317,387	1,284,228	1,097,734
Occupational Disease Reserve	4	337,700	316,700	294,400
		1,655,087	1,600,928	1,392,134
		$ 7,509,680	$ 7,317,100	$ 6,488,497
LEASE AND OTHER COMMITMENTS	9			
CONTINGENCIES AND INDEMNIFICATION	18			

Approved by the Board of Directors on April 24, 2012:

Fauzia Lalani
Acting Chair, Board of Directors
Workers' Compensation Board – Alberta

Guy R. Kerr
President & Chief Executive Officer
Workers' Compensation Board – Alberta

The accompanying notes are an integral part of these financial statements.

Workers' Compensation Board – Alberta

Statements of Comprehensive Income

Year Ended December 31

($ thousands)	Notes	2011 Budget	2011 Actual	2010 Actual
REVENUES				
Premium revenue	13	$ 982,310	$ 1,033,858	$ 1,031,541
Investment income	16	376,882	310,800	662,419
		1,359,192	1,344,658	1,693,960
EXPENSES				
Claims expense	14	734,091	766,042	689,008
Claims management	14, 15	95,543	98,023	91,586
Interest expense on claim benefit liabilities	11	272,100	228,800	259,000
Remeasurement of claim benefit liabilities	11	(87,000)	28,314	51,172
Corporate administration	15	81,455	78,381	76,491
Injury reduction	19(f)	48,343	45,628	44,460
Investment management expense	16	24,280	23,020	18,077
Interest on employee benefit liabilities	10	2,796	4,486	3,750
		1,171,608	1,272,694	1,233,544
OPERATING SURPLUS		187,584	71,964	460,416
Funding policy surplus distributions	4, 19(d)	-	1,431	(230,191)
NET FUNDING SURPLUS		187,584	73,395	230,225
OTHER COMPREHENSIVE LOSS				
Remeasurement of employee benefit liabilities	10	-	(19,236)	(21,431)
TOTAL COMPREHENSIVE INCOME		$ 187,584	$ 54,159	$ 208,794

The accompanying notes are an integral part of these financial statements.

Statements of Changes in Funded Position

As at December 31

($ thousands)	Notes	2011	2010*
FUND BALANCE			
Accumulated surplus			
Balance, beginning of year		$ 1,305,659	$ 1,097,734
Net funding surplus		73,395	230,225
Transfer to Occupational Disease Reserve		(21,000)	(22,300)
		1,358,054	1,305,659
Accumulated other comprehensive loss			
Balance, beginning of year		(21,431)	-
Other comprehensive loss		(19,236)	(21,431)
		(40,667)	(21,431)
Fund Balance, end of year		1,317,387	1,284,228
OCCUPATIONAL DISEASE RESERVE	4		
Balance, beginning of year		316,700	294,400
Transfer from Fund Balance		21,000	22,300
Occupational Disease Reserve, end of year		337,700	316,700
		$ 1,655,087	$ 1,600,928

The accompanying notes are an integral part of these financial statements.

** Note 20 explains the transition to IFRS and related effect on the WCB's financial statements.*

Workers' Compensation Board – Alberta

Statements of Cash Flows

Year Ended December 31

($ thousands)	2011	2010
OPERATING ACTIVITIES		
Cash inflows (outflows) from business operations		
Employer premiums	$ 1,005,468	$ 989,237
Benefits to claimants and/or third parties on their behalf	(644,982)	(600,876)
Administrative and other goods and services	(189,586)	(174,423)
Injury reduction program	(45,628)	(44,460)
Net cash from operating activities	125,272	169,478
INVESTING ACTIVITIES		
Cash inflows (outflows) related to investment assets		
Interest income	82,098	78,536
Dividend income	62,493	38,027
Other investment income	4,715	7,031
Gains on sale of investments	94,129	66,222
Proceeds (payments) on settlement of derivatives	(61,091)	33,185
Investment management expense	(18,374)	(17,620)
Sale of investments at cost	137,957	124,239
Purchase of investments from investment income	(175,944)	(221,073)
Cash outflows related to operating assets		
Property, plant and equipment	(9,078)	(11,301)
Computer software	(7,887)	(4,778)
Net cash from investing activities	109,018	92,468
FUNDING ACTIVITIES		
Cash outflows from funding activities		
Surplus distributions to employers	(227,847)	(563)
Net cash used for funding activities	(227,847)	(563)
NET INCREASE IN CASH AND CASH EQUIVALENTS	6,443	261,383
Cash and cash equivalents, beginning of year	362,105	100,722
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 368,548	$ 362,105

The accompanying notes are an integral part of these financial statements.

Notes to the Financial Statements

For the year ended December 31, 2011 with comparatives for the year ended December 31, 2010
(thousands of dollars unless otherwise stated)

1. REPORTING ENTITY

The Workers' Compensation Board – Alberta (WCB, WCB-Alberta) is a provincial board created by legislation in 1918. As a statutory corporation, WCB administers the workers' compensation system for the Province of Alberta under the authority of the *Workers' Compensation Act* (the Act). WCB's corporate head office is located in Edmonton, Alberta, with operations exclusively within the province of Alberta. WCB's legislated mandate is to provide disability benefits to workers who sustain injuries in the course of employment.

2. SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies have been applied in the preparation of the financial statements for all years presented, unless otherwise indicated.

GENERAL ACCOUNTING POLICIES

Basis of preparation and adoption of IFRS
These financial statements have been prepared for the first time under International Financial Reporting Standards (IFRS) for the year ended December 31, 2011. Previously, WCB followed Canadian generally accepted accounting principles (GAAP) in preparing its financial statements. The comparative numbers for the transition year ended December 31, 2010 have been restated on an IFRS basis.

WCB's financial statements have been prepared on a historic cost basis except for investments that have been measured at fair value. The principal accounting policies applied in the preparation of the financial statements on an IFRS basis are set out below.

The financial statements of WCB-Alberta comply, in all material respects, with IFRS as issued by the International Accounting Standards Board (IASB) in effect as at December 31, 2011.

Foreign currency translation
WCB's financial statements are presented in Canadian dollars, which is also the functional currency. All financial information presented has been rounded to the nearest thousand, unless otherwise stated.

Monetary assets and liabilities denominated in foreign currency are translated into Canadian dollars at the exchange rate in effect at the date of the statement of financial position. Exchange differences arising from settlement of monetary items are included in income in the period in which they arise. Non-monetary assets and liabilities denominated in foreign currency are translated at the exchange rate in effect when those transactions occurred.

Measurement uncertainty and use of accounting estimates
The preparation of financial statements in conformity with IFRS requires the use of estimates that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses during the reporting periods presented.

Some accounting measurements require management's best estimates, based on assumptions as at the financial statement date, that reflect the most probable set of economic conditions and planned courses of action. Employee benefit liabilities (Note 10), claim benefit liabilities (Note 11), and the Partnerships in Injury Reduction rebates accrual (Note 13) are the most significant items that are based on accounting estimates.

Actual results could differ from the estimates determined by management in these financial statements, and these differences, which may be material, could require adjustment in subsequent reporting periods.

Financial statement presentation

WCB presents its statement of financial position in order of liquidity. The statement of comprehensive income reports operating results arising from WCB's primary activities: core business operations including risk underwriting, premium assessment and collection, benefit processing, injury treatment and vocational rehabilitation, and financial management including investment portfolio management and claim benefit liability valuation. Administration expense is presented in the statement of comprehensive income by function. Other comprehensive loss primarily consists of net changes in remeasurement of post-employment defined benefit plan liabilities.

In addition to performance reporting, the statement of comprehensive income also reports funding actions arising from the application of Funding Policy. Such actions include appropriations of excess surplus for distribution back to employers, or collection of special levies required to replenish funding deficits, as prescribed by Funding Policy established by the Board of Directors.

Cash equivalents

Cash equivalents include short-term, liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of change in value. Cash and short-term investments held by custodians are not available for general use, and accordingly are included in investments.

Finance expense

Finance expense comprises primarily recognition of interest (i.e., time value of money) inherent in discounted liabilities. Significant discounted liabilities include claim benefit liabilities, lease obligations, and employee benefit plans.

Comparative figures

Certain comparative figures have been restated and/or reclassified where required to conform to the current year's accounting treatment.

SPECIFIC ACCOUNTING POLICIES

To facilitate a better understanding of WCB's financial statements, specific accounting policies are disclosed in the related notes to these financial statements:

Note	Topic	Page
5	Investments	46
7	Property, plant and equipment	53
8	Intangible assets	54
9	Lease and other commitments	55
10	Employee benefits	56
11	Claim benefit liabilities	59
13	Premium revenue	64
16	Investment income and expense	67

3. ACCOUNTING POLICY CHANGES

TRANSITION TO IFRS

Note 20 Transition to IFRS explains WCB's transition to IFRS.

IFRS 9 Financial instruments: Classification and Measurement
IFRS 9 replaces the classification provisions of IAS 39 with the following permitted categories:

- Amortized cost
- Fair value through income (FVTI)
- Fair value through other comprehensive income (FV-OCI)

WCB has concluded that its fixed income and equity portfolios did not satisfy the business model criteria for amortized cost or FV-OCI respectively. IFRS 9, issued in November 2009, is effective for reporting periods beginning on or after January 1, 2015. WCB elected early adoption as at the changeover date in order to avoid another major accounting change after transition. Application of IFRS 9 will require in-scope financial assets and financial liabilities to be measured at FVTI, except for cash equivalents and receivables that will continue to be measured at amortized cost. There were no material impacts from early adoption of IFRS 9.

POST-TRANSITION ACCOUNTING CHANGES

IAS 19 Employee Benefits
Effective June 2011, WCB early adopted amended IAS 19 *Employee Benefits*. The major changes eliminate options to defer and amortize remeasurement gains and losses (corridor method) on employee benefit plans and to recognize such changes in income, instead requiring that they be recognized in other comprehensive loss (OCL). Other important changes prohibit recognition of expected returns on plan assets in income, and require service cost and interest on plan obligations to be presented in income with remeasurement changes in OCL. Amended IAS 19, which is effective for reporting periods beginning on or after January 1, 2013, is not expected to have a material effect on WCB's reported results.

STANDARDS ISSUED BUT NOT YET EFFECTIVE

IFRS 13 Fair Value Measurement
In May 2011, the IASB issued IFRS 13 *Fair Value Measurement* to establish a framework for measuring and reporting on fair value within a single standard. In addition to classification of assets and liabilities measured at fair value using a 'fair value hierarchy', IFRS 13 requires a reconciliation of changes within Level 3 portfolio holdings, as well as discussion of the sensitivity of the fair value measurement to changes in unobservable inputs for financial assets and financial liabilities. These requirements are effective for reporting periods beginning on or after January 1, 2013, with earlier application permitted. Adoption of IFRS 13 is not expected to have a material impact on WCB's financial reporting.

Amendments to IAS 32 Financial Instruments – Presentation and IFRS 7 Financial Instruments – Disclosures: *Offsetting Financial Assets and Financial Liabilities*
In December 2011, the IASB issued the referenced amendments to provide new guidance on when an entity may offset financial assets and financial liabilities on the statement of financial position, and to prescribe disclosure of information to enable users of financial statements to evaluate the effects of netting arrangements. These requirements are effective for reporting periods beginning on or after January 1, 2014, with earlier application permitted. These amendments, which do not affect cash flows, have not yet been evaluated for reporting purposes but are not expected to be material with respect to WCB's financial position or results of operations.

4. FUNDING

ACCIDENT FUND

The Act stipulates the creation of an Accident Fund (the Fund) holding sufficient funds for the payment of present and future compensation. The Fund is fully funded when the total assets equal or exceed total liabilities. This Funded Position (or net assets) represents the current funding status of the Fund.

The Funded Position is maintained through two reserves within the Accident Fund: the Fund Balance and the Occupational Disease Reserve (ODR). The Fund Balance represents accumulated net operating surpluses retained against financial uncertainty. The ODR was established through an appropriation from the Fund Balance to provide for costs arising from latent occupational injury or disease where a causal link to the workplace has not been established, but may be established in the future. The ODR is maintained at 6% of claim benefit liabilities in each year through a transfer from or to the Fund Balance.

FUNDING POLICY AND CAPITAL MANAGEMENT

Since the Act does not provide for an ownership-based capital structure, WCB views its available capital resources as synonymous with its Funded Position. The primary objective in managing the Funded Position is to mitigate the risk of being unfunded, while a secondary objective is to minimize premium rate volatility caused by investment and claim benefit liability risk. WCB manages the financial status of the Accident Fund by monitoring the Funded Position and making funding decisions in accordance with the Funding Policy.

The Funding Policy sets a target zone of 114% to 128% for the Funded Ratio (total assets divided by total liabilities) to guide funding decisions. When the Funded Ratio falls below the target zone, special funding requirements are included in premium rates. When the Funded Ratio is above the target zone, surplus distributions may be paid. There were no changes to the described Funding Policy or capital management practices during the year.

($ thousands)	**2011**	2010
Accident Fund		
Total assets	$ 7,509,680	$ 7,317,100
Less:		
Total liabilities	5,854,593	5,716,172
Funded Position	$ 1,655,087	$ 1,600,928
Funded Ratio	128.3%	128.0%

5. INVESTMENTS

ACCOUNTING POLICY

WCB's portfolio investments are designated at fair value through income and managed in accordance with portfolio management objectives and Investment Policy. Investments are composed of marketable fixed income and equity securities and non-traded mortgage, infrastructure, and real estate funds.

WCB utilizes trade-date accounting (date when transactions are entered into rather than when they are settled) for all purchases and sales of financial instruments.

Upon initial recognition, debt and equity securities are recognized at their settlement value (including transaction costs net of any premium or discount at date of purchase, if applicable). Classification of financial assets at fair value through income requires related transaction costs to be expensed when incurred (see Note 16 *Investment Income and Expense*). Subsequent fair value measurement changes are recognized in income in the period in which they arise.

Derivatives are initially recognized at fair value and subsequently remeasured at the financial statement date. All gains and losses resulting from remeasurement at fair value are recognized in investment income in the respective periods in which they arose.

Valuation of financial instruments

The fair value of financial assets as at the reporting date is determined as follows:

Debt and equity securities

- Publicly traded securities are based on their closing bid prices or the average of the latest bid/ask prices quoted by independent securities valuation companies.
- Non-publicly traded pooled funds are valued at the net asset values of the funds, which reflect the fair values of fund assets less fund liabilities.
  - The fair value of infrastructure and real estate funds are based on independent annual appraisals, net of any liabilities against the fund assets.
  - The fair value of commercial mortgage funds is based on the market interest rate spread over Bank of Canada bonds with a similar term to maturity.

Derivative contracts

- Written forward foreign-exchange contracts are valued based on the change in the underlying exchange rate relative to the Canadian dollar.
- Tradable equity index futures, whose prices change according to the underlying market index, are valued based on exchange-listed prices.
- Bond futures, whose prices change according to the underlying bond price, are valued based on exchange-listed prices.

INVESTMENT PORTFOLIO HOLDINGS

WCB's portfolio investments are all classified at fair value through income (FVTI). The table in this section presents the fair value of WCB's investments as at December 31, together with their classifications under the fair value measurement hierarchy. Note 16 *Investment Income and Expense* provides a breakdown of investment income by type.

Fair value classification hierarchy

The fair value of WCB's investments recorded on the Statements of Financial Position was determined using one of the following valuation techniques:

Level 1 The fair value is based on quoted prices in active markets for identical assets or liabilities. This level includes equity securities and derivative contracts that are traded in an active exchange market.

Level 2 The fair value is based on inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs based on observable market data. Includes pooled funds invested in traded securities, as well as derivative contracts whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data.

Level 3 The fair value is based on unobservable inputs that are significant to the fair value of the assets or liabilities and have little or no market activity. This level includes financial instruments whose value is determined using pricing models, discounted cash flow methodologies or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category includes pooled funds invested in debt securities, private equity, real estate and infrastructure.

The table below summarizes the basis of fair value measurements for financial assets held in WCB's investment portfolio:

	December 31, 2011					
	Fair value through income					
($ thousands)	Level 1	Level 2	Level 3	**Fair Value**	**Amortized Cost[5]**	**Total**
Fixed income						
Nominal bonds:	$ -	$ 1,784,134	$ 30,542	$ 1,814,676	$ 28,478	$ 1,843,154
Mortgages[1]	-	-	424,294	424,294	-	424,294
	-	1,784,134	454,836	2,238,970	28,478	2,267,448
Equities						
Domestic	450,072	203,107	-	653,179	5,604	658,783
Foreign[2]	1,310,909	620,135	-	1,931,044	26,428	1,957,472
	1,760,981	823,242	-	2,584,223	32,032	2,616,255
Inflation-sensitive						
Real estate[3]	200,971	8,611	813,367	1,022,949	759	1,023,708
Infrastructure[4]	308,723	-	219,927	528,650	4,649	533,299
Real-return bonds	-	545,912	-	545,912	1,406	547,318
	509,694	554,523	1,033,294	2,097,511	6,814	2,104,325
	2,270,675	3,161,899	1,488,130	6,920,704	67,324	6,988,028
Derivatives	-	29,763	-	29,763	-	29,763
	$ 2,270,675	$ 3,191,662	$ 1,488,130	$ 6,950,467	$ 67,324	$ 7,017,791

[1] *Mortgages include commercial mortgages and multi-unit mortgages, but do not include single-dwelling residential mortgages.*

[2] *Foreign equities comprise U.S., EAFE (Europe, Australasia, and Far East), and Emerging Market mandates.*

[3] *Real estate investments include pooled funds invested in commercial properties.*

[4] *Infrastructure consists of a pooled fund invested in infrastructure projects.*

[5] *Net cash, receivables, and payables held within the investment portfolio are carried at amortized cost and therefore not subject to fair value classification. As their carrying amount approximates fair value, they are added to the fair value totals to arrive at the total fair value of investments reported in the statement of financial position.*

($ thousands)	December 31, 2010 Fair value through income Level 1	Level 2	Level 3	Fair Value	Amortized Cost	Total
Fixed income	$ -	$2,218,623	$ 260,862	$2,479,485	$ 22,161	$2,501,646
Equities	1,503,737	1,315,404	-	2,819,141	30,892	2,850,033
Inflation-sensitive						
Real estate	162,536	6,996	581,991	751,523	685	752,208
Infrastructure	146,915	-	71,139	218,054	5,891	223,945
Real-return bonds	-	502,050	-	502,050	1,101	503,151
	1,813,188	4,043,073	913,992	6,770,253	60,730	6,830,983
Derivatives	-	23,673	-	23,673	-	23,673
	$ 1,813,188	$4,066,746	$ 913,992	$6,793,926	$ 60,730	$6,854,656

($ thousands)	January 1, 2010 Fair value through income Level 1	Level 2	Level 3	Fair Value	Amortized Cost	Total
Fixed income	$ -	$2,146,336	$ 300,578	$2,446,914	$ 16,581	$2,463,495
Equities	1,672,035	1,171,406	-	2,843,441	32,265	2,875,706
Inflation-sensitive						
Real estate	-	-	433,617	433,617	11,422	445,039
Infrastructure	-	-	27,608	27,608	36	27,644
Real-return bonds	-	485,626	-	485,626	1,223	486,849
	1,672,035	3,803,368	761,803	6,237,206	61,527	6,298,733
Derivatives	-	19,860	-	19,860	-	19,860
	$1,672,035	$3,823,228	$ 761,803	$6,257,066	$ 61,527	$6,318,593

Transfers between Levels 1 and 2

There were no material transfers between Level 1 and Level 2 during 2010 and 2011.

Reconciliation of Level 3 activity

($ thousands)	**Fixed Income**	**Real Estate/ Infrastructure**	**2011**	Fixed Income	Real Estate/ Infrastructure	2010
Balance, beginning of year	$ 260,862	$ 653,130	$ 913,992	$ 300,578	$ 461,225	$ 761,803
Fair value gains recognized in income	27,482	112,750	140,232	6,530	26,369	32,899
Purchases of Level 3 investments	167,485	299,211	466,696	46,736	217,313	264,049
Sale/settlement of Level 3 investments	(993)	(31,797)	(32,790)	(522)	(51,777)	(52,299)
Transfers in and/or out of Level 3	-	-	-	(92,460)	-	(92,460)
Balance, end of year	$ 454,836	$1,033,294	$1,488,130	$ 260,862	$ 653,130	$ 913,992

6. INVESTMENT RISK MANAGEMENT

INVESTMENT GOVERNANCE

The Board of Directors is ultimately responsible for overall strategic direction and governance of the investment portfolio through its review and approval of the Investment Policy and ongoing monitoring of investment risks, performance, and compliance.

WCB management is responsible for monitoring investment performance, recommending changes to the Investment Policy, and selecting fund managers. WCB retains independent consultants to benchmark the performance of its fund managers, and to advise on the appropriateness and effectiveness of its Investment Policy and practices.

KEY FINANCIAL RISKS

The primary financial risk for WCB is the risk that, in the long term, returns from its investments will not be sufficient to discharge all obligations arising from its claim liabilities. In order to manage this funding risk, risk management for investments has been effectively integrated with risk management of liabilities. WCB's primary risk mitigation strategy is effective execution of its Investment Policy. The Investment Policy target asset mix, and associated risk and return characteristics, have been established to provide guidelines for a broad investment strategy, as well as specific approaches to portfolio management. The Investment Policy also calls for maintaining a well-diversified portfolio, both across and within asset classes, and engaging fund managers who represent a broad range of investment philosophies and styles, operating within a rigorous compliance framework.

WCB has identified key areas of investment risk that directly affect the sufficiency of its investments to fund current and future claim obligations:

Market risks · These risks include movements in equity market prices, interest rates, credit spreads, and foreign currency exchange rates.

Portfolio risks · These risks relate to specific composition and management of WCB's portfolio and include liquidity risk, securities lending risk, counterparty default risk and derivatives risk.

The following sections describe these risks, WCB's exposures, and their respective mitigation strategies.

MARKET RISKS

Equity market risk

WCB is exposed to equity market risk, which is the risk that the fair value of its investments in publicly traded shares will fluctuate in the future because of price changes. WCB's mitigation strategy for equity market risk is to apply disciplined oversight of investment activities within a formal investment control framework that has been reviewed and validated by independent experts to ensure continuous compliance with approved policies and practices.

The table below presents the effect on WCB's equity mandates of a significant adverse change[1] in the key risk variable — the portfolio weighted average (asset class) benchmark:

($ thousands)	2011		2010	
Equities	**1 std dev**	**2 std dev**	1 std dev	2 std dev
% change in Canadian market benchmark	(16.1%)	(32.1%)	(16.0%)	(32.1%)
Canadian mandate	$ (105,801)	$ (211,601)	$ (123,521)	$ (247,043)
% change in Global market benchmark	(12.7%)	(25.5%)	(13.4%)	(26.7%)
Global mandate	$ (210,922)	$ (421,843)	$ (227,404)	$ (454,807)
% change in Emerging market benchmark	(22.1%)	(44.2%)	(22.4%)	(44.8%)
Emerging markets mandate	$ (71,023)	$ (142,046)	$ (87,948)	$ (175,896)

FIXED INCOME PRICING RISK

Fixed income pricing risk related to financial securities arises from changes in general financial market or economic conditions that may change the pricing of the entire non-government bond market, specific sectors, or individual issuers. This risk is generally manifested through changes in the security's credit spread. WCB's investment portfolio is exposed to fixed income pricing risk through participation in a Canadian mortgage pool and through direct holdings of Canadian and foreign fixed income securities.

The table below presents the effects of a change in the credit spreads of 50 and 100 bps[2] on the mortgage portfolio and non-government portion of the bond portfolio:

($ thousands)	2011		2010	
Change in nominal interest rate	**+50 bp**	**+100 bp**	+50 bp	+100 bp
Non-government bonds	$ (23,350)	$ (46,700)	$ (21,922)	$ (43,844)
Mortgages	$ (7,637)	$ (15,275)	$ (4,095)	$ (8,190)

[1] *A change is considered to be material when it exceeds the standard deviation (std dev), which measures the variance in a normal probability distribution. One standard deviation covers 68% of all probable outcomes; two standard deviations include 95% of outcomes. The benchmark deviations are based on 2011 data.*

[2] *One basis point (bp) equals 1/100 of 1%; 50 bps = 50/100 of 1% or 0.5%.*

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The table below presents the effects of a nominal interest rate change of 50 and 100 bps on the respective bond and mortgage portfolios:

($ thousands)	**2011**		2010	
Change in nominal interest rate	**+50 bp**	**+100 bp**	+50 bp	+100 bp
Nominal bonds	$ (55,894)	$ (111,789)	$ (67,443)	$ (134,886)
Real return bonds	$ (44,360)	$ (88,720)	$ (40,780)	$ (81,561)
Mortgages	$ (7,637)	$ (15,275)	$ (4,095)	$ (8,190)

Foreign currency risk

Currency risk is the risk that the value of financial assets and liabilities denominated in foreign currencies will fluctuate due to changes in their respective exchange rates.

WCB is exposed to currency risk through foreign investments in fixed income, equities, and infrastructure. The exposures are hedged to the Canadian dollar by utilizing forward contracts. The target hedge ratio (% of the exposure hedged to Canadian dollars) varies by asset class and currency. The target for fixed income and infrastructure is 100%. For foreign equities, the target is 25% for the U.S. dollar and 50% for other major currencies.

WCB's largest foreign currency exposure is to the U.S. dollar, with unhedged holdings of $680,652 (2010 – $628,405); euro exposure is next, with unhedged holdings of $123,341 (2010 – $90,371). For the current reporting period, the net loss from the currency overlay was $26,876 (2010 – $36,075 gain).

The table below presents the effects on the foreign equity mandate of a material change in the Canadian/U.S. dollar and Canadian/euro exchange rates:

($ thousands)	**2011**		2010	
	CAD/USD	**CAD/EURO**	CAD/USD	CAD/EURO
December 31 spot rate	0.9821	0.7565	1.0064	0.7502
10% appreciation in the Canadian dollar	1.0803	0.8322	1.1070	0.8252
Global mandate	$ (61,877)	$ (11,213)	$ (57,128)	$ (8,216)

PORTFOLIO RISKS

Derivatives risk

Although derivatives represent an important component of WCB's risk management strategy, the portfolio does not contain any derivatives intended for speculative or trading purposes. An example of derivatives used for risk mitigation is the currency overlay described in the currency risk section, which is a partial hedge of the currency exposure. From time to time, derivatives are also utilized as a portfolio management technique to replicate a target asset mix or achieve certain asset exposures when it is not possible or cost-effective to hold or sell securities directly.

The notional value of a derivative contract used in a hedging arrangement represents the exposure that is being hedged, and is the amount to which a rate or price is applied in order to calculate the exchange of cash flows. Notional amounts are not indicative of the credit risk associated with such derivative contracts. WCB's credit exposure is represented by the replacement cost of all outstanding contracts in a receivable (positive fair value) position. Counterparty default risk with respect to derivative contracts is mitigated in accordance with investment guidelines on counterparty default risk.

The table below summarizes the fair value of the WCB's derivative portfolio of open contract positions in segregated funds, with their remaining terms to maturity, as at December 31:

($ thousands)			2011			2010		
	Asset Mandates	Term to Maturity	**Notional Principal**	**Fair Value Asset**	**Fair Value Liability**	Notional Principal	Fair Value Asset	Fair Value Liability
Asset replication contracts	Global fixed income	Within 1 year	$ 233,224	$ -	$ (275)	$ 103,590	$ 1,166	$ (50)
Foreign-exchange contracts								
Currency overlay forward contracts	Global equities	Within 1 year	1,532,363	26,688	-	1,008,857	16,838	-
Forward foreign-exchange contracts	Global equities/fixed income	Within 1 year	380,017	3,499	(149)	797,041	7,484	(1,765)
			1,912,380	30,187	(149)	1,805,898	24,322	(1,765)
			$2,145,604	$ 30,187	$ (424)	$1,909,488	$ 25,488	$ (1,815)

WCB also has indirect exposure to derivatives risk through its pooled investments, but they do not contain any derivatives intended for speculative or trading purposes.

Liquidity risk
Liquidity risk stems from the lack of marketability of a security that cannot be bought or sold quickly enough to prevent or minimize a loss.

Through a proactive cash management process that entails continuous forecasting of expected cash flows, WCB mitigates liquidity risk by minimizing the need for forced liquidations of portfolio assets in volatile markets. To cover unanticipated cash requirements when market conditions are unfavourable, WCB has negotiated a standby line of credit of up to $20 million, which has not been drawn down as at December 31, 2011.

Counterparty default risk
Counterparty default risk arises from the possibility that the issuer of a debt security, or the counterparty to a derivatives contract, fails to discharge its contractual obligations to WCB.

To mitigate counterparty default risk, WCB requires that credit ratings for counterparties not fall below an acceptable threshold. The Investment Policy permits bond issuers to have lower than a B- (or equivalent score) from a recognized credit-rating agency, but such holdings may not exceed 3% of total fixed income assets in the portfolio. Counterparties for derivative contracts will have at least an A- credit rating or equivalent from a recognized credit-rating agency. Each fund is closely monitored for compliance to ensure that aggregate exposures do not exceed those specified investment constraints.

As at December 31, 2011, the aggregate amount of fixed income securities in segregated funds with counterparty ratings below BBB- was $89,208 (2010 – $91,384). WCB also has indirect exposure to counterparty default risk through its pooled investments. Twenty percent of the fixed income portfolio is held in pooled funds.

Securities lending risk
WCB participates in a securities-lending program sponsored by its custodian, where such loans are secured against loss with marketable securities having a minimum fair value of 102% of the loan. The custodian is contractually obligated to indemnify WCB for any losses resulting from inadequate collateral.

At December 31, 2011, securities on loan through the custodian totalled $750 million (2010 – $897 million), secured by $799 million (2010 – $947 million) of posted collateral. During 2011, securities-lending generated income of $1,659 (2010 – $895).

7. PROPERTY, PLANT AND EQUIPMENT

ACCOUNTING POLICY

Property, plant and equipment are recognized as an asset if it is probable that WCB will realize future economic benefits. Items are measured at fair value upon initial recognition.

After initial recognition, property, plant and equipment is stated at historical cost less accumulated depreciation and impairment (if applicable) with the exception of land, which is not depreciated. Leased assets and leasehold improvements are depreciated over their lease term. All other items are depreciated over their expected useful life. Depreciation expense is recognized when an asset is ready for use as intended.

Residual values, useful lives, and depreciation methods are reviewed at each financial year-end and adjusted if appropriate. Depreciation expense is included in Claims Management and Corporate Administration in the statement of comprehensive income (see Note 15 *Administration Expense*).

WCB applies the following annual depreciation rates and methods:

Buildings	*2.5% straight-line*
Leasehold improvements	*Straight-line over the expected lease term*
Equipment:	
- *Computer (owned)*	*35% declining balance*
- *Computer (leased)*	*Straight-line over the lease term*
Furniture and other	*15% declining balance*
Vehicles	*20% straight-line*

WCB evaluates its property, plant and equipment for indicators of impairment such as obsolescence, redundancy, deterioration, loss or reduction in future service potential, or when there is a change in intended use. When the carrying value exceeds the amount of future economic benefit through utilization, the item of property, plant and equipment is written down to expected value and the amount recognized as an impairment loss.

($ thousands)						2011	2010
Cost	Land/ Buildings	Leasehold Improvements	Computer Equipment	Office Furniture/ Equipment	Vehicles/ Other	**Total**	Total
Balance, beginning of period	$ 45,276	$ 1,590	$ 10,579	$ 15,560	$ 480	$ 73,485	$ 62,746
Current period activity:							
Capitalized expenditure	6,015	46	2,531	1,759	353	10,704	5,282
Transfer from PPE under construction	(5,654)	-	(613)	(2,514)	(101)	(8,882)	-
Disposals	-	-	(2,441)	(47)	(32)	(2,520)	(101)
PPE under construction	2,295	-	2,825	2,330	25	7,475	5,559
Balance, end of period	$ 47,932	$ 1,636	$ 12,881	$ 17,088	$ 725	$ 80,262	$ 73,486
Accumulated depreciation and impairment							
Balance, beginning of period	$ 16,924	$ 886	$ 5,677	$ 7,366	$ 107	$ 30,960	$ 26,474
Current period activity:							
Depreciation	1,060	58	2,404	1,105	125	4,752	4,588
Disposals	-	-	(2,441)	(47)	(32)	(2,520)	(101)
Balance, end of period	$ 17,984	$ 944	$ 5,640	$ 8,424	$ 200	$ 33,192	$ 30,961
Carrying value, beginning of period	$ 28,352	$ 704	$ 4,902	$ 8,194	$ 373	$ 42,525	$ 36,272
Carrying value, end of period	$ 29,948	$ 692	$ 7,241	$ 8,664	$ 525	$ 47,070	$ 42,525

Property, plant and equipment under finance leases

Included in property, plant and equipment is computer equipment acquired through finance leases at cost of $6,711 (2010 – $4,844), accumulated depreciation of $1,977 (2010 – $3,186), and carrying value of $4,734 (2010 – $1,658).

See Note 9 *Lease and Other Commitments* for accounting policy and further details on leased property, plant and equipment.

8. INTANGIBLE ASSETS

ACCOUNTING POLICY

WCB's intangible assets are composed of computer software developed internally or acquired through third party vendors and customized as necessary. Development expenditure is capitalized only if the directly related costs (both internal and external) can be measured reliably, the product or process is technically feasible, future economic benefits are probable, and WCB has the intention and sufficient resources to complete development and to use the asset in the manner intended.

Computer software is measured at cost upon initial recognition. After initial recognition, computer software is measured at cost less accumulated amortization and impairment, if applicable. Computer software is amortized on a straight-line basis at 20% per year commencing from the date that the software is available for use.

Amortization expense is included in claims management and corporate administration in the statement of comprehensive income (see Note 15 *Administration Expense*).

($ thousands)			**2011**	2010
Cost	In Production	Under Development	**Total**	Total
Balance, beginning of year	$ 111,488	$ 5,952	$ 117,440	$ 115,971
Capitalized expenditure	-	8,270	8,270	4,945
Transfers from software under development	6,791	(6,791)	-	-
Disposals	-	-	-	(3,476)
Balance, end of year	$ 118,279	$ 7,431	$ 125,710	$ 117,440
Accumulated amortization and impairment				
Balance, beginning of year	$ 94,215	$ -	$ 94,215	$ 89,410
Amortization	7,014	-	7,014	8,281
Disposals	-	-	-	(3,476)
Balance, end of year	$ 101,229	$ -	$ 101,229	$ 94,215
Carrying value, beginning of period	$ 17,273	$ 5,952	$ 23,225	$ 26,561
Carrying value, end of period	$ 17,050	$ 7,431	$ 24,481	$ 23,225

9. LEASE AND OTHER COMMITMENTS

ACCOUNTING POLICY

Leases of property, plant and equipment where WCB acquires substantially all the risks and rewards of ownership are classified as finance leases. At lease commencement, finance leases are recognized in the statement of financial position as assets and corresponding obligations at the lower of the fair value of the leased property and the present value of future minimum lease payments.

Lease payments are allocated between the liability and finance charges using the effective interest method to achieve a constant rate of interest on the remaining balance of the lease. The interest portion of the payment is charged to income over the lease period, while the principal portion is applied against the lease obligation.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Operating lease payments are charged to income over the lease term.

Lease obligations

WCB has obligations under material long-term non-cancellable finance lease agreements for mainframe and desktop computer equipment. The land for WCB's rehabilitation centre and office space in Edmonton, and the Calgary office building, are held under operating leases. WCB's leases have remaining terms of between 4 and 21 years. See Note 7 *Property, Plant and Equipment* for carrying values of computer equipment held under finance leases.

Commitments

WCB enters into contractual commitments for purchases of goods and services as part of its regular business activities. A schedule of future expenditure commitments is listed in the table below.

($ thousands)				**2011**	2010
	Leases				
Cost	**Finance**	**Operating**	Other Commitments	**Total**	Total
2011	$ -	$ -	$ -	$ -	$ 14,109
2012	2,031	1,843	16,933	20,807	6,544
2013	1,670	1,730	7,833	11,233	3,982
2014	1,201	1,692	6,757	9,650	2,597
2015	43	1,706	199	1,948	1,531
Beyond	-	7,540	365	7,905	7,039
Future minimum payments - undiscounted	$ 4,945	$ 14,511	$ 32,087	$ 51,543	$ 35,802
Interest portion of finance leases	(154)				(104)
Finance lease obligations - discounted[1]	$ 4,791				1,708
Other commitments - undiscounted		$ 14,511	$ 32,087	$ 46,598	$ 33,990

[1]See Note 19(c) *Trade and other liabilities* for presentation of the current finance lease obligation.

10. EMPLOYEE BENEFITS

ACCOUNTING POLICY

WCB provides active service and defined post-employment benefits to its employees. WCB also participates in certain multi-employer pension plans sponsored by the province of Alberta. An expense and a liability for benefits earned are recognized in the period that employee service has been rendered.

For defined post-employment benefit plans, current benefit cost represents the actuarial present value of the benefits earned in the current period. Such cost is actuarially determined using the accrued benefit method prorated on service, a market interest rate, management's best estimate of projected costs, and the expected years of service until retirement. The liability as at the reporting date is the present value of the defined benefit obligation, which is determined by discounting the estimated future cash outflows using a discount rate based on market yields of high-quality corporate bonds having terms to maturity that approximate the duration of the related benefit liability. Interest expense represents the amount required in each year to build up the liability over the projected benefit period to its future value. Remeasurement changes in benefit liabilities, composed of actuarial changes in assumptions and experience gains and losses, are recognized in other comprehensive income.

Active service benefits

WCB's short-term benefits for active employees include salary, compensated absence (sick leave, statutory holidays, and annual vacation), group life insurance, dental and medical coverage, employee family assistance program, education support, and health and wellness benefits.

Termination benefits are provided for through employment contracts, statutory requirements, or constructive obligations. As at December 31, 2011, there were no material provisions relating to termination benefits.

POST-EMPLOYMENT BENEFITS

Pension plans

Employee post-retirement benefits are provided through contributory multi-employer defined benefit pension plans sponsored by the Province of Alberta, namely the Public Service Pension Plan (PSPP) and the Management Employees Pension Plan (MEPP). Under defined benefit plan accounting, WCB must recognize its proportionate share, determined on an actuarial basis, of plan assets, obligations, remeasurement amounts, and service cost prorated on total contributory payroll.

Both plans have funding deficiencies that have statutory funding requirements by employers and employees to eliminate any plan deficiencies over a specific time horizon. The information in this note reflects an annual actuarial valuation of WCB's share of the plans' assets, benefit obligations, remeasurement amounts, and service cost.

Supplemental executive retirement plan

WCB sponsors a non-contributory supplemental executive retirement plan (SERP), with the WCB Accident Fund covering the obligations of the plan. Earnings of senior management generally exceed the threshold earnings for the maximum pension benefit permitted under the federal Income Tax Act. Under the terms of the SERP, senior management is entitled to receive supplemental retirement payments that bring their total pension benefits to a level consistent with their total earnings. Future pension benefits are based on the participants' years of service and earnings.

See Note 17 *Related Party Transactions* for a breakdown of SERP costs by executive position.

Post-retirement benefit plan

WCB provides a contributory benefit plan that provides dental and health care benefits to retirees on pensions between the ages of 55 to 65. As plan participants pay part of the benefit cost, the benefit obligation represents the difference between actual costs and contributions subsidized by WCB.

OTHER BENEFIT PLANS

Long-term disability plan

WCB administers a non-contributory long-term disability (LTD) income continuance plan for its employees, with the WCB Accident Fund covering the obligations of the plan. The LTD liability represents the present value of all future obligations arising from claims incurred during the period.

The table below presents key assumptions applicable to WCB's employee future benefit plans.

($ thousands)	2011					2010				
	PSPP	MEPP	SERP	Post Retirement	LTD	PSPP	MEPP	SERP	Post Retirement	LTD
Date of most recent actuarial valuation[1]	12/31/2011	12/31/2011	12/31/2011	12/31/2011	12/31/2011	12/31/2011	12/31/2011	12/31/2010	12/31/2010	12/31/2010
Economic assumptions										
Discount rate (nominal)	5.30%	5.20%	5.40%	5.00%	4.20%	5.70%	5.60%	5.90%	5.40%	4.60%
Alberta inflation rate (long-term)	2.25%	2.25%	2.25%	n/a	n/a	2.25%	2.25%	2.40%	n/a	n/a
Salary escalation rate	varied	3.50%	4.00%	n/a	3.00%	varied	3.50%	4.00%	n/a	3.00%
Multi-employer plan funding assumptions										
WCB share of plan payroll	4.51%	1.31%				4.51%	1.31%			
Effective rate on contributory payroll	14.17%	19.70%				14.17%	19.70%			
WCB's actual contributions for the current period *($ thousands)*	$ 10,021	$ 1,291				$ 9,630	$ 1,115			
WCB's expected contributions for the following period *($ thousands)*	$ 10,671	$ 1,315				$ 9,816	$ 1,299			

[1]*Actuarial valuations prepared annually by WCB's benefit plan actuaries. PSPP and MEPP valuations for 2010 were prepared retrospectively.*

DEFINED BENEFIT PLAN LIABILITIES

($ thousands)	2011				2010			
	Pension Liabilities[1]	Other Retirement Liabilities[2]	LTD	**Total**	Pension Liabilities	Other Retirement Liabilities	LTD	Total
Change in defined benefit obligation								
Defined benefit obligation, beginning of year	$ 223,759	$ 6,319	$ 12,741	$ 242,819	$ 187,821	$ 4,361	$ 10,230	$ 202,412
Current service cost[3]	9,312	676	1,604	11,592	7,344	510	2,462	10,316
Interest expense[4]	12,765	372	550	13,687	12,705	295	523	13,523
Remeasurement (gains) losses[5]	13,519	935	(2,135)	12,319	23,884	1,249	1,203	26,336
Benefit payments	(7,995)	(60)	(1,475)	(9,530)	(7,995)	(96)	(1,677)	(9,768)
Defined benefit obligation, end of year	$ 251,360	$ 8,242	$ 11,285	$ 270,887	$ 223,759	$ 6,319	$ 12,741	$ 242,819
Change in fair value of plan assets								
Fair value of plan assets, beginning of year	$ 160,228	$ -	$ -	$ 160,228	$ 142,800	$ -	$ -	$ 142,800
Employer contributions	11,312	55	1,475	12,842	10,745	246	1,677	12,668
Interest income[4]	9,201	-	-	9,201	9,773	-	-	9,773
Remeasurement (gains) losses[5]	(6,917)	-	-	(6,917)	4,905	-	-	4,905
Benefit payments	(7,995)	(55)	(1,475)	(9,525)	(7,995)	(246)	(1,677)	(9,918)
Fair value of plan assets, end of year	$ 165,829	$ -	$ -	$ 165,829	$ 160,228	$ -	$ -	$ 160,228
Net plan liability								
Defined benefit obligation	251,360	8,242	11,285	270,887	223,759	6,319	12,741	242,819
Fair value of plan assets	165,829	-	-	165,829	160,228	-	-	160,228
	$ 85,531	$ 8,242	$ 11,285	$ 105,058	$ 63,531	$ 6,319	$ 12,741	$ 82,591

[1] *Pension liabilities include WCB's proportionate share of the PSPP and MEPP net unfunded liabilities.*
[2] *Other retirement liabilities include SERP and post retirement benefit plan.*
[3] *Current service costs are presented within Corporate Administration in the statement of comprehensive income.*
[4] *Interest expense is presented net of interest income in the statement of comprehensive income.*
[5] *Remeasurement gains and losses on plan obligations is presented net of gains and losses on plan assets in the statement of comprehensive income.*

RISKS ARISING FROM DEFINED BENEFIT PLANS

Economic risks

Defined benefit plans are directly exposed to economic risks from plan assets invested in capital markets, and indirectly with respect to measurement risk from assumptions based on economic factors, such as discount rates affected by volatile bond markets. Benefit obligations are exposed to uncertainty of future economic conditions, primarily inflation risk due to the extremely long tails of post-employment benefits, and health care escalation due to increasingly higher costs of treatment and prescription drugs.

Demographic risks

Demographic factors affect current and future benefit costs with respect to the amount and time horizon of expected payments due to such factors as workforce average age and earnings levels, attrition and retirement rates, mortality and morbidity rates, etc.

Multi-employer plan funding risk

In addition to economic and demographic risk factors, WCB is exposed to funding risk in the multi-employer plans arising from:

- Legislative changes affecting eligibility for and amount of pension and related benefits;
- Performance of plan assets affected by investment policies set by the government.

Because these plans are governed by legislation rather than contract, there is little flexibility for participants with respect to withdrawal from the plan, plan wind-up or amendments, and mandatory funding requirements.

Sensitivity analysis

The following table shows the effect of a 25 basis point change in the assumed discount rate, inflation rate, and wage inflation rate on WCB's proportionate share of the accrued benefit obligations of PSPP and MEPP. The impacts of the change on WCB's other employee benefit plans, individually and in aggregate, are immaterial.

($ thousands)	**2011**		2010	
+/- % change on assumed rates	**+0.25%**	**-0.25%**	+0.25%	-0.25%
Discount rate based on market yields on high-quality corporate bonds	$(8,937)	$ 8,937	$(7,954)	$ 7,954
General inflation rate	$ 4,037	$(4,037)	$ 3,594	$(3,594)
Wage inflation rate	$ 1,801	$(1,801)	$ 1,601	$(1,601)

11. CLAIM BENEFIT LIABILITIES

ACCOUNTING POLICY

The claim benefit liability represents the actuarial present value of all expected future benefit payments and claim administration costs for claims in respect of current and prior years' injuries. The liability includes a provision for costs of managing claims, but does not include a provision for future claims arising from latent occupational disease or for benefits and payments that are on a self-insured basis. Claim benefit liabilities have been estimated in accordance with accepted actuarial practice established by the Canadian Institute of Actuaries.

Gains and losses resulting from the valuation of the liability arise from differences between actual claims experience and that expected based on the previous valuation, changes to actuarial methods and assumptions as well as changes in policy, legislation, and administrative practices. Such remeasurement gains and losses are recognized in income in the period that they occur.

CHANGE IN ACTUARIAL STANDARDS – LIABILITY FOR LONG LATENCY OCCUPATIONAL DISEASE CLAIMS

Effective for valuation dates on and after December 31, 2014, a new standard of the Canadian Institute of Actuaries (issued February 2011) will require that actuarial valuations include an allowance for all long latency occupational disease claims expected to arise in the future as a result of past exposures. WCB is currently assessing the implications of implementing this requirement, and is still evaluating if this new standard will require a change to its accounting policies for recognition of this liability. Adoption of this standard for its claim benefit liabilities would have a material impact on the WCB's reported financial position.

ACTUARIAL METHODOLOGY AND BASIS OF VALUATION

Claim benefit liabilities have been independently valued at December 31, 2011 by WCB's external actuary. Claim benefit liabilities include a provision for all covered benefits and for the future expenses of administering those benefits, including funding obligations to the Appeals Commission and Medical Panel Office. No provision has been made for claims related to known latent occupational diseases where the claim has not yet been reported and the year of disablement would be in a subsequent period.

The valuation is based on the legislation, WCB policies, and administrative practices in effect as at the valuation date. Estimation of the liability requires the use of actuarial methods and assumptions that are periodically assessed and adjusted based on frequent monitoring of actual claims experience, the economy, and other relevant factors throughout the year.

Since the claim benefit liabilities of WCB are of a long-term nature, the actuarial assumptions and methods used to calculate the reported claim benefit liabilities are based on considerations of future expenditures over the long term. As the determination of these liabilities requires assumptions about economic and other events that may occur many years in the future, but which are based on best information as at the valuation date, a significant degree of professional judgement must be exercised in developing these assumptions. Accordingly, changes in conditions within one year of the financial statement date could require material change in recognized amounts in a subsequent period or periods.

See Note 12 *Claim Benefit Risks* for further discussion of measurement uncertainty with respect to valuation of WCB's claim benefit liabilities.

Estimated future expenditures are expressed in constant dollars and then discounted at the assumed real rate of return on investments (i.e., the difference between the expected long-term investment earnings and the expected long-term general inflation rate).

VALUATION ASSUMPTIONS

The most significant economic assumptions for the determination of claim benefit liabilities are the assumed rate of return on invested assets used for discounting expected future benefit payments, and the escalation rates for future benefit costs in the future. All of the actuarial assumptions are determined on a best estimate basis except for the real rate of return on investments. The expected long-term investment earnings assumption is targeted at a 70% probability level, which provides a margin for adverse deviation.

Long-term economic assumptions for general inflation and wage escalation are developed by using historical statistics and other economic indicators. The cost-of-living allowance assumption is determined by subtracting 0.5% from the long-term general inflation assumption in accordance with policy. Health care escalation is developed from analysis of WCB health care cost experience, taking into consideration the results of external studies. This escalation rate represents general inflation plus excess inflation of 3.5%, covering both the increases in the costs per treatment and in utilization.

The table below presents key long-term economic assumptions used to determine the claim benefit liabilities:

	2011	2010
Nominal rate of return, years 1-4	4.55%	4.55%
Nominal rate of return, years 5 and beyond	5.58%	5.58%
General inflation rate	2.50%	2.50%
Real rate of return, years 1-4	2.00%	2.00%
Real rate of return, years 5 and beyond	3.00%	3.00 %
Cost-of-living allowance	2.00%	2.00%
Wage escalation	3.50%	3.50%
Health care escalation	6.00%	6.00%

CHANGES IN CURRENT ASSUMPTIONS

During the reporting period, there were no changes to the key long-term economic assumptions, other than a change to the assumption for the real rate of return.

For the 2010 valuation, the real rate of return was reduced from the long-term rate of 3% for all future years to 2% for 2011 to 2014 and 3% thereafter, reflecting low bond market yields. For the 2011 valuation, the short-term period has been extended to include 2015 as market yields have not rebounded but have once again decreased. The impact of this change is an increase of $35.6 million in the claim benefit liabilities.

RECONCILIATION OF CLAIM BENEFIT LIABILITIES

The table below is a reconciliation of the movement in claim benefit liabilities, highlighting the significant changes for each major benefit category. Note 14 *Claims and Claims Management Expenses* provides details of those amounts recognized in income for the reporting period.

	2011						
($ thousands)	Short-term Disability	Long-term Disability	Survivor Benefits	Health Care	Rehabilitation	Claims Management	**Total**
Claim benefit liabilities, beginning of year	$ 377,000	$ 2,247,000	$ 505,800	$ 1,666,900	$ 135,500	$ 346,700	$ 5,278,900
Claim costs recognized during the year							
Provision for future costs of current year injuries	94,700	174,700	26,800	218,000	33,900	58,000	606,100
Claim benefits processed in the year	74,932	4,170	1,910	129,217	3,622	36,714	250,565
	169,632	178,870	28,710	347,217	37,522	94,714	856,665
Claim costs arising from changes to policy, legislation and administrative practices							
Changes related to governance	2,200	1,200	1,500	1,700	-	800	7,400
Total claim costs recognized during the year	171,832	180,070	30,210	348,917	37,522	95,514	864,065
Claim payments processed during the year							
Payments for current year injuries	(73,095)	(2,427)	(1,245)	(126,284)	(3,440)	(35,285)	(241,776)
Payments for prior years' injuries	(88,644)	(147,646)	(43,789)	(149,915)	(37,071)	(62,738)	(529,803)
	(161,739)	(150,073)	(45,034)	(276,199)	(40,511)	(98,023)	(771,579)
Interest expense on the liability	15,100	99,100	22,100	72,500	5,500	14,500	228,800
Impact of actuarial remeasurement							
Changes in valuation methods and assumptions							
Change to Exposure Index	2,600	11,700	800	19,900	800	2,300	38,100
Assumptions for Economic Loss Payments	-	(47,200)	-	-	-	-	(47,200)
Lower discount rate related to real rate of return	1,600	15,900	3,500	12,900	600	1,100	35,600
Other changes in methods and assumptions	-	400	-	-	-	-	400
Changes in claims experience							
Inflation and wage growth different than expected	1,900	13,600	2,200	(900)	1,300	2,900	21,000
Actual costs different than expected	(2,500)	10,200	500	(8,000)	6,000	6,000	12,200
Other experience (gains) losses	207	(17,497)	(9,376)	2,382	389	(7,891)	(31,786)
Total Remeasurement of claim benefit liabilities	3,807	(12,897)	(2,376)	26,282	9,089	4,409	28,314
Claim benefit liabilities, end of year	$ 406,000	$ 2,363,200	$ 510,700	$ 1,838,400	$ 147,100	$ 363,100	$ 5,628,500

($ thousands)	2010 Short-term Disability	Long-term Disability	Survivor Benefits	Health Care	Rehabilitation	Claims Management	Total
Claim benefit liabilities, beginning of year	$ 333,700	$ 2,131,500	$ 494,800	$ 1,500,000	$ 126,300	$ 320,700	$ 4,907,000
Claim costs recognized during the year							
Provision for future costs of current year injuries	88,600	160,800	23,800	197,900	30,500	55,200	556,800
Claim benefits processed in the year	65,004	4,032	1,635	109,916	2,880	28,227	211,694
	153,604	164,832	25,435	307,816	33,380	83,427	768,494
Claim costs arising from changes to policy, legislation and administrative practices							
Changes related to governance	1,200	3,000	3,100	4,100	100	600	12,100
Total claim costs recognized during the year	154,804	167,832	28,535	311,916	33,480	84,027	780,594
Claim payments processed during the year							
Payments for current year injuries	(63,014)	(2,442)	(1,058)	(107,150)	(2,660)	(26,398)	(202,722)
Payments for prior years' injuries	(88,005)	(142,796)	(43,934)	(142,229)	(33,992)	(65,188)	(516,144)
	(151,019)	(145,238)	(44,992)	(249,379)	(36,652)	(91,586)	(718,866)
Interest expense on the liability	16,200	114,100	26,400	79,700	6,200	16,400	259,000
Impact of actuarial remeasurement							
Changes in valuation methods and assumptions							
Lower discount rate related to real rate of return	8,100	67,800	15,500	50,100	2,800	8,900	153,200
Other changes in methods and assumptions	14,500	(5,500)	-	-	-	2,000	11,000
Changes in claims experience							
Inflation and wage growth different than expected	(800)	(15,900)	(5,100)	(20,600)	700	1,600	(40,100)
Actual costs different than expected	-	(24,600)	600	(5,800)	4,600	(1,400)	(26,600)
Other experience (gains) losses	1,515	(42,994)	(9,943)	963	(1,928)	6,059	(46,328)
Total Remeasurement of claim benefit liabilities	23,315	(21,194)	1,057	24,663	6,172	17,159	51,172
Claim benefit liabilities, end of year	$ 377,000	$ 2,247,000	$ 505,800	$ 1,666,900	$ 135,500	$ 346,700	$ 5,278,900

CLAIMS DEVELOPMENT

The table that follows presents the development of the estimated ultimate benefits of claims and claim payments for accident years 2005 to 2011. In the year of adoption of IFRS, only five comparative years are required to be disclosed. This will be increased in each succeeding year until ten years of information have been accumulated.

The top part of the table illustrates how the estimate of total claims benefits for each accident year has changed with more experience over succeeding year-ends. The shaded claims triangle shows the estimated cost of claims for an accident year in the year of accident, one year after the year of accident, two years after the year of accident and so on and compares the total estimated cost to the actual cumulative payments over the development period. Due to the extremely long duration of many WCB benefit types, significant amounts are expected to be paid in the distant future beyond the valuation date. The bottom part of the table reconciles the total outstanding benefit amounts to the discounted amount reported in the statement of financial position.

($ thousands)	Prior Years	2005	2006	2007	2008	2009	2010	**2011**	**Total**
	Accident Year								
Estimate of cumulative claims benefits									
At end of accident year		1,041,803	1,150,098	1,313,629	1,407,779	1,301,798	1,333,450	*1,444,292*	
One year later		1,044,701	1,189,008	1,295,318	1,308,486	1,250,394	*1,299,370*	-	
Two years later		1,054,176	1,178,679	1,197,062	1,276,380	*1,239,500*	-	-	
Three years later		1,042,662	1,096,841	1,176,070	*1,271,144*	-	-	-	
Four years later		980,429	1,072,273	*1,154,051*	-	-	-	-	
Five years later		957,173	*1,079,888*	-	-	-	-	-	
Six years later		*944,210*	-	-	-	-	-	-	
Current estimate of cumulative claim benefits		944,210	1,079,888	1,154,051	1,271,144	1,239,500	1,299,370	1,444,292	
Cumulative payments		(371,087)	(390,654)	(384,928)	(392,425)	(332,361)	(293,284)	(206,491)	
Outstanding benefits (undiscounted)	5,960,440	573,123	689,234	769,123	878,719	907,139	1,006,086	1,237,801	12,021,665
Effect of discounting	(3,141,400)	(347,596)	(419,322)	(467,701)	(535,188)	(553,009)	(602,389)	(689,661)	(6,756,265)
	2,819,040	225,527	269,912	301,422	343,531	354,130	403,697	548,140	5,265,400
Claims management									363,100
Claim benefit liabilities									5,628,500

12. CLAIM BENEFIT RISKS

Because there is no statutory limit on the benefit amount payable or the duration of the risk exposure related to work-related injuries, WCB bears risk with respect to its future claim costs, which could have material implications for liability estimation. In determining WCB's claim benefit liabilities, a primary risk is that the actual benefit payments may exceed the amount estimated in determining the liabilities. This may occur due to changes in claim reporting patterns, frequency and/or size of claim payments or duration of claims. Compensable injuries and benefits payable may also change due to legislation or policy changes. With potentially long claims run-off periods, inflation is also a factor because future costs could escalate at a faster rate than expected.

The uncertainties associated with WCB claim benefit liabilities are complex and subject to a number of variables that complicate quantitative sensitivity analysis. The most significant assumption in the determination of the claim benefit liabilities is the real rate of return. A reduction in the assumed real rate of return would increase the actuarial present value of the claim benefit liabilities.

Wage inflation affects the liabilities through benefits such as vocational rehabilitation and home maintenance allowances. An increase in assumed wage growth would increase the respective liabilities.

Health care benefits represent approximately 33% of the claim benefit liabilities. An increase in the assumed health care escalation rate would result in an increase in the liability for health care.

The table below shows the sensitivity of the claim benefit liabilities to an immediate 0.25% increase or decrease in the assumed rates:

($ thousands)	**2011**		2010	
+/- % change on assumed rates	**+0.25%**	**-0.25%**	+0.25%	-0.25%
Real rate of return	$ (161,000)	$ 168,000	$ (152,100)	$ 158,700
Wage inflation rate	$ 32,000	$ (31,000)	$ 27,000	$ (26,000)
Health care escalation rate	$ 64,000	$ (61,000)	$ 57,700	$ (54,800)

13. PREMIUM REVENUE

ACCOUNTING POLICY

Premiums are assessed and due when employers report their insurable earnings for the current year. For employers who have not reported, premiums are estimated and included in the amount receivable. Premium revenue includes estimates for Partnerships in Injury Reduction rebates and other items.

Premium revenue is fully earned and recognized over the annual coverage period. Any difference between actual and estimated premiums and rebates is adjusted in the following year.

($ thousands)	**2011**	2010
Premiums		
Assessed premium revenue for current year	$ 1,082,820	$ 1,092,150
Self-insured employer revenue	12,156	11,347
Other premium-related revenue	12,209	9,248
	1,107,185	1,112,745
Deduct: Partnerships in injury reduction rebates	73,327	81,204
	$ 1,033,858	$ 1,031,541

Assessed premium revenue includes an accrual of $11,286 (2010 – negative $5,529) for amounts related to yet to be reported insurable earnings for the current period. The accrual has been determined using an internally developed statistical model to estimate the amount of unreported earnings based on actual returns processed to date and historical patterns of processed to unprocessed returns at a specified point in time.

Partnerships in Injury Reduction (PIR) is a voluntary program that pays rebates to those registered employers that have met the eligibility requirements in achieving certain workplace safety targets as specified under the program. Earned rebates are payable in the following year. The estimated rebate amount is based on several factors, including premiums paid, year-over-year improvement on claims experience and safety performance relative to industry benchmarks, among others.

For both premium and PIR accruals, the differences between actual and estimated amounts in past years have not been material.

14. CLAIMS AND CLAIMS MANAGEMENT EXPENSES

The table below presents details of claim and management expenses reported in the statement of comprehensive income.

($ thousands)	2011			2010		
	Current Year Injuries	**Prior Years' Injuries**	**Total**	Current Year Injuries	Prior Years' Injuries	Total
Claims expense						
Provision for future costs of current year injuries[1]	$ 606,100	$ -	$ 606,100	$ 556,800	$	$ 556,800
Claim payments processed in the year						
Short-term disability	73,095	88,644	161,739	63,014	88,005	151,019
Long-term disability	2,427	147,646	150,073	2,442	142,796	145,238
Survivor benefits	1,245	43,789	45,034	1,058	43,934	44,992
Health care	126,284	149,915	276,199	107,150	142,229	249,379
Rehabilitation	3,440	37,071	40,511	2,660	33,992	36,652
	206,491	467,065	673,556	176,324	450,956	627,280
Deduct: claim payments related to prior years[2]	-	(521,014)	(521,014)	-	(507,172)	(507,172)
	206,491	(53,949)	152,542	176,324	(56,216)	120,108
Impact of governance changes[3]	7,400	-	7,400	12,100	-	12,100
	$ 819,991	$ (53,949)	$ 766,042	$ 745,224	$ (56,216)	$ 689,008
Claims management[4]						
Claims-related administration	35,231	51,975	87,206	26,398	56,776	83,174
Appeals Commission	53	10,479	10,532	-	8,143	8,143
Medical Panel Office	1	284	285	-	269	269
	$ 35,285	$ 62,738	$ 98,023	$ 26,398	$ 65,188	$ 91,586
Total Claims and Claims Management Expense	$ 855,276	$ 8,789	$ 864,065	$ 771,622	$ 8,972	$ 780,594

[1] *The provision for future costs of current year injuries represents the present value of all future obligations for benefit payments arising from current year injuries*

[2] *Claim payments relating to prior years injuries are not current year expenses, but are charged to the liabilities established for those prior accident years*

[3] *Governance changes arise from legislation, administrative practices, or judicial decisions*

[4] *Claims management represents WCB's internal functional costs related to claims processing as well as funding of the external decision review bodies. Claims management expenses are included in claim benefit liabilities for valuation purposes but are presented separately in the statement of comprehensive income*

15. ADMINISTRATION EXPENSE

WCB's primary administrative functions include:

- **Corporate administration** – provides general management and specialized services such as investment management
- **Claims-related administration** – responsible for adjudicating claims, processing benefit payments, and the provision of return to work services to claimants

The table below presents administration broken down by nature of expense and by function:

($ thousands)	Corporate	Claims-related	2011	2010
Administration expenses				
Salaries and employee benefits	$ 53,084	$ 97,288	$ 150,372	$ 141,030
Technology expenses	11,192	6,916	18,108	18,906
Office expenses	3,360	1,920	5,280	5,177
Occupancy expenses	3,343	5,350	8,693	7,996
Professional fees	1,709	2,626	4,335	4,213
Depreciation and amortization	6,275	5,479	11,754	12,854
Travel and related expenses	700	478	1,178	1,158
Other	1,246	298	1,544	1,532
	80,909	120,355	201,264	192,866
Less:				
Cost recoveries - legal action	65	3,048	3,113	3,032
Cost recoveries - other	79	1,015	1,094	1,129
Reclassifications to:				
Investment Management expense	2,384	-	2,384	2,205
Claims expense - Rehabilitation services	-	29,086	29,086	26,835
	2,528	33,149	35,677	33,201
	$ 78,381	$ 87,206	$ 165,587	$ 159,665

For 2010, Corporate administration was $76,491 and Claims-related administration $83,174.

16. INVESTMENT INCOME AND EXPENSE

ACCOUNTING POLICY

The primary components of investment income include:

(a) gains and losses from investments (including derivatives) classified at fair value through profit and loss recognized in income in the period in which they arise;

(b) interest revenue accrued using the effective interest method, net of amortization of any premium or discount recognized at date of purchase; and

(c) dividend income when a right to payment has been established based on the ex-dividend date for quoted securities.

Investment expense is composed of transaction costs and investment management expenses, both external and internal. Transaction costs related to the acquisition and sale or transfer of securities designated at fair value through income are recognized in income in the period in which they are incurred. Fund management expenses of pooled investments (including transaction costs, custodial and accounting fees, etc.) are netted against the revenues of those respective funds.

INVESTMENT INCOME

($ thousands)	2011	2010
Interest income		
Bonds	$ 108,578	$ 124,300
Mortgages	18,735	11,758
Short-term investments	4,179	1,782
	131,492	137,840
Dividend income		
Domestic equities	26,354	17,825
Foreign equities	40,517	33,278
	66,871	51,103
Property income		
Real estate	30,028	21,754
Infrastructure	16,945	5,512
	46,973	27,266
Derivative income		
Realized gains (losses)	(61,091)	33,185
Unrealized gains (losses)	29,763	23,673
	(31,328)	56,858
Investment gains (losses)		
Bonds	146,742	112,971
Mortgages	7,168	-
Domestic equities	(68,614)	93,617
Foreign equities	(90,352)	129,405
Real estate	110,669	49,624
Infrastructure	(8,821)	3,735
	96,792	389,352
	$ 310,800	$ 662,419

INVESTMENT MANAGEMENT EXPENSE

($ thousands)	2011	2010
Fund management fees	$ 20,217	$ 14,514
Custody fees	419	1,358
Investment administration	2,384	2,205
	$ 23,020	$ 18,077

17. RELATED PARTY TRANSACTIONS

Included in these financial statements are transactions with various Alberta Crown corporations, departments, agencies, boards, educational institutions and commissions related to WCB by virtue of common influence by the Government of Alberta. Routine operating transactions in the ordinary course of business are settled at terms equivalent to those for arms length entities.

Included in related-party transactions are certain funding obligations relating to Occupational Health and Safety, the Appeals Commission and the Medical Panel Office that are in accordance with the applicable legislation and/or regulations. The amounts outstanding at December 31 and transactions throughout the year related to these funding obligations are disclosed in this note.

Key management personnel of WCB, composed of the Board of Directors and the senior executive and their close family members, are also related parties in accordance with IAS 24 *Related Party Disclosures*. As at the reporting date, there were no business relationships or transactions, other than compensation, between WCB and its key management personnel requiring disclosure in these financial statements.

The amounts outstanding at December 31 and transactions throughout the year with the related parties described above, excluding key management personnel, are as follows:

($ thousands)	2011	2010
Receivables	$ 5	$ -
Payables and accruals	$ 2,884	$ 1,919
Expenses	$ 38,192	$ 35,635

KEY MANAGEMENT COMPENSATION

The tables below present total compensation of the directors and senior management of WCB in accordance with the requirements of the Salary and Benefits Disclosure Directive issued by the Treasury Board of Alberta.

($)	2011				
	Base Salary[1]	Other Cash Benefits[2]	Non-Cash Benefits[3]	SERP[4]	Total
Chair, Board of Directors[5]	$ -	$ 83,480	$ 3,912	$ -	$ 87,392
Board Members[5]	-	105,108	8,710	-	113,818
President and Chief Executive Officer	375,000	199,500	38,459	63,400	676,359
Vice-president, Disability and Information Management	307,000	113,450	32,917	45,900	499,267
Vice-president, Customer Service and Risk Management	275,000	102,250	35,041	42,200	454,491
Vice-president, Employee and Corporate Services	236,000	76,800	33,998	26,500	373,298
Chief Financial Officer	275,000	102,250	35,076	34,200	446,526
Secretary and General Counsel	231,000	75,300	36,214	28,500	371,014
	$ 1,699,000	$ 858,138	$ 224,327	$ 240,700	$ 3,022,165
	2010				
Chair, Board of Directors[5]	$ -	$ 95,834	$ 3,879	$ -	$ 99,713
Board Members[5]	-	163,189	12,748	-	175,937
President and Chief Executive Officer	354,000	189,000	35,940	49,200	628,140
Vice-president, Disability and Information Management	290,000	107,500	30,593	32,500	460,593
Vice-president, Customer Service and Risk Management	264,000	98,400	31,530	33,700	427,630
Vice-president, Employee and Corporate Services	227,000	74,100	31,494	20,800	353,394
Chief Financial Officer	264,000	98,400	32,510	25,500	420,410
Secretary and General Counsel	222,000	72,600	33,381	23,500	351,481
	$ 1,621,000	$ 899,023	$ 212,075	$ 185,200	$ 2,917,298

[1] *Base salary is pensionable base pay.*

[2] *Other cash benefits include performance awards, car allowances and honoraria.*

[3] *Non-cash benefits include employer's share of all employee short-term benefits and payments made to or on behalf of employees including statutory contributions, health care, dental and vision coverage, out-of-country medical benefits, group life and accident insurance, educational costs, and professional and other memberships.*

[4] *SERP represents employer's current service cost for benefits accrued under a supplemental executive retirement plan. See Note 10 Employee Benefits for details of the plan, and the following table for the costs and obligations related to each named key management position.*

[5] *The Chair of the Board of Directors and the nine Board Members are part-time positions. There were two Board member vacancies for a period during 2011.*

No termination benefits were paid to key management personnel in the reporting period.

SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN

($)	2011				2010	
	Current Service Cost[1]	Other Costs[2]	**Net Cost**	**Accrued Obligation**	Net Cost	Accrued Obligation
President and Chief Executive Officer	$ 63,400	$ 111,500	$ 174,900	$ 714,200	$ 170,100	$ 539,300
Vice-president, Disability and Information Management	45,900	90,600	136,500	457,700	126,200	321,200
Vice-president, Customer Service and Risk Management	42,200	51,400	93,600	389,000	93,500	295,400
Vice-president, Employee and Corporate Services	26,500	33,000	59,500	244,900	60,400	185,400
Chief Financial Officer	34,200	61,600	95,800	264,900	68,600	169,100
Secretary and General Counsel	28,500	48,600	77,100	276,600	58,600	199,500
Other senior management and inactive members	128,700	115,300	244,000	741,800	208,900	497,800
	$ 369,400	$ 512,000	$ 881,400	$ 3,089,100	$ 786,300	$ 2,207,700

[1] *Current service cost represents the actuarial present value of future benefit obligations arising from employee service in the current period.*

[2] *Other costs include interest on the liability and actuarial gains and losses arising from assumption changes and/or experience.*

18. CONTINGENCIES AND INDEMNIFICATION

LEGAL PROCEEDINGS

WCB is party to various claims and lawsuits related to the normal course of business that are currently being contested. In the opinion of management, the outcome of such claims and lawsuits are not determinable. Based on the total amount of all such actions, WCB has concluded that the outcomes will not have a material effect on the results of operations or financial position.

INDEMNIFICATION AGREEMENTS

In the normal course of operations, WCB enters into contractual agreements that contain standard contract terms that indemnify certain parties against loss. The terms of these indemnification clauses will vary based upon the contract, and/or the occurrence of contingent or future events, the nature of which prevents WCB from making a reasonable estimate of the potential amount that may be payable to those contractual parties. Such indemnifications are not significant, nor has WCB made any payments or accrued any amounts in the financial statements in respect of these indemnifications.

19. SUPPLEMENTAL INFORMATION

(a) Cash and cash equivalents

($ thousands)	2011	2010
Cash in transit and in banks	$ 23,164	$ 20,017
Cash equivalents	345,384	342,088
Cash and cash equivalents	$ 368,548	$ 362,105

Cash equivalents are invested in a portfolio of high-quality, short- to mid-term, highly liquid fixed-income securities that generated an average annual return of 1.3% (2010 – 0.9%).

(b) Trade and other receivables

($ thousands)	2011	2010
Premium		
Assessed	$ 37,051	$ 33,352
Accrued	11,286	(5,528)
	48,337	27,824
Other	3,453	6,765
	$ 51,790	$ 34,589

Accrued premiums receivable represent estimated premiums related to employers that had not yet reported their insurable earnings by year-end.

Substantially all receivables are collected within one year.

(c) Trade and other liabilities

($ thousands)	Trade	Other	2011	2010
Trade payables	$ 35,384	$ -	$ 35,384	$ 35,148
Lease obligations	-	4,791	4,791	1,708
Other liabilities	-	6,683	6,683	6,493
	$ 35,384	$ 11,474	$ 46,858	$ 43,349
Current portion	$ 35,384	$ 2,002	$ 37,386	$ 36,071
Non-current portion	-	9,472	9,472	7,278
	$ 35,384	$ 11,474	$ 46,858	$ 43,349

See Note 9 *Lease and Other Commitments* for details of the lease obligations.

(d) Surplus distributions

($ thousands)	Change in Comprehensive Income 2011	Change in Comprehensive Income 2010	Surplus Distributions Payable 2011	Surplus Distributions Payable 2010
Surplus distributions, beginning of year			$ 230,128	$ 500
Payment of prior years' surplus distributions			(227,847)	(563)
			2,281	(63)
Adjustment of prior years' accruals	$ (1,431)	$ 63	(1,431)	63
Outstanding balance from prior years			850	-
Surplus distributions authorized for the year	-	230,128	-	230,128
Surplus distributions, end of year	$ (1,431)	$ 230,191	$ 850	$ 230,128

Substantially all surplus distributions are paid within one year.

(e) Safety rebates

($ thousands)	2011	2010
Safety rebates payable, beginning of year	$ 81,204	$ 71,445
Payment of prior years' rebates	(75,576)	(69,883)
	5,628	1,562
Adjustment of prior years' accruals	(4,549)	962
Outstanding balance from prior years	1,079	2,524
Rebates for the year	72,248	78,680
Safety rebates payable, end of year	$ 73,327	$ 81,204

Safety rebates represent amounts recognized under the Partnerships in Injury Reduction program. See Note 13 *Premium Revenue* for further discussion of the PIR program.

(f) Injury reduction

($ thousands)	2011	2010
Occupational Health and Safety	$ 27,694	$ 27,545
Industry safety associations	17,934	16,915
	$ 45,628	$ 44,460

Injury reduction is composed of statutory funding of Occupational Health and Safety and voluntary premium levies to fund industry-sponsored safety associations.

20. TRANSITION TO IFRS

OVERVIEW

The objective of IFRS 1 is to ensure comparability of an entity's IFRS financial statements over time, and between the financial statements of entities adopting IFRS for the first time. Adoption of IFRS is predicated on retrospective application — financial statements are presented as though the entity had always reported under IFRS. The transitional provisions of IFRS 1 include a number of optional exemptions from, as well as some mandatory exceptions to, retrospective application of certain IFRSs.

Basis of Preparation

WCB has prepared its first financial statements under IFRS for the year ending December 31, 2011. IFRS financial statements for that period also present two years of comparative financial information restated from Canadian GAAP to IFRS: 1) for the year ended December 31, 2010 and 2) the opening statement of financial position as at January 1, 2010.

SIGNIFICANT ACCOUNTING POLICY CHANGES

IFRS 9 Financial instruments: Classification and Measurement

IFRS 9, issued in November 2009, replaces the classification and measurement provisions of IAS 39. IFRS 9 is effective for reporting periods beginning on or after January 1, 2015, but WCB has elected early adoption in order to avoid another major accounting change after transition.

IFRS 1 election: Designation of previously recognized financial instruments

Under IAS 39, an entity must designate a financial instrument at inception. A subsequent change of designation is permitted only under certain conditions specified by IAS 39; however, IFRS 1 allows an entity a choice to reclassify previously recognized financial instruments at the date of transition. As IFRS 9 eliminates the available-for-sale classification, WCB elected fair value through income at transition on the basis that its financial instruments do not meet the business model criteria for either amortized cost or fair value through other comprehensive income.

Impact of adoption

At January 1, 2010, the balance in AOCI of $328.2 million was eliminated to opening Fund Balance with no impact on funded position. For the year ended December 31, 2010, the impact was a $317.6 million increase in investment income and a corresponding decrease in AOCI. The balance in AOCI was also eliminated to Fund Balance.

IAS 17 Leases

At transition, WCB reclassified some of its computer equipment leases from operating to finance leases with immaterial effect. Analysis of other leases confirmed that they were operating.

Impact of adoption

The impact on the financial statements as a result of IAS 17 at January 1, 2010, and at December 31, 2010 was immaterial.

IAS 1 Financial statement presentation

For the statement of changes in equity (funded position), IAS 1 permits only those changes in equity arising from transactions with owners in their capacity as owners to be reflected therein. Non-owner changes in equity must be presented in the statement of comprehensive income.

Impact of adoption

The impact on the financial statements as a result of IAS 17 at January 1, 2010 was immaterial. For the year ended December 31, 2010, surplus distributions payable to employers in accordance with Funding Policy aggregating $230,191 were reclassified from the statement of changes in funded position to the statement of comprehensive income, with no net effect on funded position.

IFRS POLICY ELECTIONS

IAS 16 Property, plant and equipment

WCB has elected the cost method for all PPE and intangible assets, on the basis that it was more appropriate in representing its business than fair value.

IFRS 1 election: Fair value as deemed cost

After thorough analysis of all PPE and intangible assets, WCB concluded that previous GAAP was substantially aligned with IFRS and that their carrying values were consistent with IFRS requirements. Since the majority of WCB assets are of more recent vintage, asset recognition and cost measurement were considered to be reliable, hence the fair value exemption was not taken.

IFRS 1 election: Decommissioning liabilities included in property, plant and equipment

WCB has elected to evaluate decommissioning liabilities for owned and leased PPE, as at the date of transition. Based on a review of contractual and constructive obligations in accordance with IAS 37, WCB did not recognize such liabilities as they were not material.

Impact of adoption

There is no impact on the financial statements as current practice is consistent with IAS 16 requirements.

IAS 19 Employee benefits

Because WCB early adopted IAS 19 (Revised) issued in June 2011, the accounting policy elected at transition has been superseded. WCB had elected to recognize all actuarial gains and losses of post-employment benefit plans immediately through income. The IAS 19 amendment requires such gains and losses to be recognized instead through OCL. For comparability with IAS 19 (Revised), WCB changed its transitional election to recognize all gains and losses through OCL, including those from other benefit plans.

Impact of adoption

For the year ended December 31, 2010, the impact from recognition of actuarial gains and losses through OCL was immaterial, with no net impact on total comprehensive income.

See note 3 *Recently Issued Accounting Standards* for discussion of this accounting change.

WCB also elected to change the accounting policy for its multi-employer pension plans from defined contribution to defined benefit plan accounting. IFRS places the onus on an entity to justify why defined benefit accounting cannot be applied for such plans. After extensive review of the IAS 19 guidance and consultation with its benefit plan actuaries, WCB concluded that implementation of defined benefit accounting was practical.

See note 10 *Employee Benefits* for discussion of this accounting change.

Impact of adoption

At January 1, 2010, the multi-employer pension impact was recognition of a net pension liability for two pension plans resulting in an increase of $45.0 million in employee benefit liabilities and a decrease in opening Fund Balance. At December 31, 2010, plan changes resulted in employee benefits liabilities of $61.1 million, an increase of $20.1 million from the net transitional liability of $41.0 million.

IFRS 1 election: Recognition of cumulative gains and losses

Retrospective application of the corridor method requires an entity to split the cumulative actuarial gains and losses, from the inception of all benefit plans until the date of transition to IFRS, into a recognized and an unrecognized portion. IFRS 1 permits recognition of all cumulative unrecognized actuarial gains and losses at the date of transition. WCB elected to recognize cumulative gains and losses only for its long-term disability plan, as its other benefit plans already recognize all gains and losses immediately.

Impact of adoption

At January 1, 2010, and at December 31, 2010, the impact from recognition of actuarial gains and losses was immaterial.

MANDATORY EXCEPTIONS FROM RETROSPECTIVE APPLICATION

Where retrospective application cannot be performed with sufficient reliability, full retrospective application is not permitted. In addition, IFRS 1 prescribes exceptions to application rules for specific areas to prevent entities using the benefit of hindsight to change accounting outcomes retrospectively, i.e., based on circumstances and information that were not available when the amounts were originally estimated under previous GAAP.

The following exceptions apply to retrospective application to WCB transactions.

Estimates

Accounting estimates in accordance with IFRSs that were also made under previous GAAP may not be adjusted on transition except to reflect differences in accounting policies or unless there is objective evidence that the estimates were in error. For the transitional financial statements, no estimates required adjustment to comply with IFRSs.

Classification and measurement of financial assets

An entity must assess whether a financial asset meets the conditions for classification at amortized cost in accordance with IFRS 9 based on the facts and circumstances that exist at the date of transition to IFRS. This exception is also intended to prevent the use of hindsight in retrospectively applying IFRS 9 before the date of transition.

As at January 1, 2010, cash equivalents as well as trade and other receivables met the requirements for amortized cost classification.

RECONCILIATION OF GAAP TO IFRS FINANCIAL STATEMENTS

In addition to explaining the impacts of adopting IFRS, IFRS 1 requires a quantitative reconciliation of the results under previous GAAP and IFRS specifically for funded position and total comprehensive income for all comparative periods. The following transitional financial statements provide this reconciliation.

A. Statement of Financial Position		December 31, 2010				January 1, 2010			
($ thousands)	Notes	Canadian GAAP	Presentation Differences	Recognition and Measurement Differences	IFRS	Canadian GAAP	Presentation Differences	Recognition and Measurement Differences	IFRS
ASSETS									
Cash and cash equivalents		$ 362,105	$ -	$ -	$ 362,105	$ 100,722	$ -	$ -	$ 100,722
Trade and other receivables		34,589	-	-	34,589	6,349	-	-	6,349
Investments	A1	6,851,029	3,627	-	6,854,656	6,315,424	3,169	-	6,318,593
Property, plant and equipment	A2	40,867	-	1,658	42,525	34,591	-	1,681	36,272
Intangible assets		23,225	-	-	23,225	26,561	-	-	26,561
		7,311,815	3,627	1,658	7,317,100	6,483,647	3,169	1,681	6,488,497
LIABILITIES									
Trade and other liabilities	A3	140,758	(99,117)	1,708	43,349	142,954	(86,889)	1,742	57,807
Surplus distributions		230,128	-	-	230,128	500	-	-	500
Safety rebates	A4	-	81,204	-	81,204	-	71,445	-	71,445
Employee benefits	A5	-	21,540	61,051	82,591	-	18,613	40,998	59,611
Claim benefit liabilities		5,278,900	-	-	5,278,900	4,907,000	-	-	4,907,000
		5,649,786	3,627	62,759	5,716,172	5,050,454	3,169	42,740	5,096,363
FUNDED POSITION									
Fund Balance	A6	1,345,329	-	(61,101)	1,284,228	1,138,793	-	(41,059)	1,097,734
Occupational Disease Reserve		316,700	-	-	316,700	294,400	-	-	294,400
		1,662,029	-	(61,101)	1,600,928	1,433,193	-	(41,059)	1,392,134
		$ 7,311,815	$ 3,627	$ 1,658	$ 7,317,100	$6,483,647	$ 3,169	$ 1,681	$ 6,488,497
Funded ratio		129.4%			128.0%	128.4%			127.3%

Notes to the Statement of Financial Position

Note Ref	Description of Adjustment	IFRS	Reason		Dec 31, 2010	Note Ref		Jan 1, 2010
A1	***Investments***							
	Reclassify investment fees payable to trade and other liabilities	IAS 1	Material dissimilar items require separate presentation in the financial statements		3,627	A3		3,169
A2	***Property, plant and equipment***							
	Recognize computer equipment assets and liabilities under finance leases	IAS 17	Net impact of transitional recognition of assets and liabilities under IAS 17					
	Lease assets				1,658			1,681
	Lease liabilities				1,708			1,742
	Adjust net difference of lease assets and liabilities to opening accumulated opening surplus	IAS 17	Net impact of transitional recognition of leased assets and liabilities under IAS 17			C2		(61)
A3	***Trade and other liabilities***							
	Reclassify material unrelated amounts to separate line items:	IAS 1	Material dissimilar items require separate presentation in the financial statements					
	Investment fees / other liabilities			3,627		A1	3,169	
	Employee benefits			(21,540)		A5	(18,613)	
	Safety rebates			(81,204)	(99,117)	A4	(71,445)	(86,889)
A4	***Safety rebates***							
	Reclassify safety rebates payable from trade and other liabilities to a separate line	IAS 1	Material dissimilar items require separate presentation in the financial statements		81,204	A3		71,445
A5	***Employee benefits***							
	Reclassify retirement and other benefit obligations from trade and other liabilities to a separate line for employee benefits	IAS 1	Material dissimilar items require separate presentation in the financial statements		21,540	A3		18,613
	Recognize cumulative actuarial gains and losses on employee benefit plans (long-term disability)	IFRS 1	Transitional relief from full retrospective application of the corridor method in accordance with IAS 19	(2,480)		C3	(4,023)	
	Recognize multi-employer pension liabilities due to accounting policy change from defined contribution to defined benefit plan accounting	IAS 19	Actuarial review confirmed that sufficient information was available to apply defined benefit accounting under IAS 19					
	PSPP			57,722		C4	41,529	
	MEPP			5,809	61,051	C4	3,492	40,998
A6	***Fund Balance*** (Statement of Changes in Funded Position)							
	Presentation differences - total				-	C		-
	Recognition and measurement differences - total				(61,101)	C		(41,059)

B. Statement of Comprehensive Income		December 31, 2010			
($ thousands)	Notes	Canadian GAAP	Presentation Differences	Recognition and Measurement Differences	IFRS
REVENUE					
Premium		$ 1,031,541	$ -	$ -	$ 1,031,541
Investment income	B1	326,726	18,077	317,616	662,419
Other operating income	B2	870	(870)	-	-
		1,359,137	17,207	317,616	1,693,960
EXPENSES					
Claims expense	B3	1,093,879	(404,871)	-	689,008
Claims management	B4	-	92,394	(808)	91,586
Interest expense on claim benefit liabilities	B3	-	259,000	-	259,000
Remeasurement of claim benefit liabilities	B3	-	51,172	-	51,172
Corporate administration	B5	79,387	(1,835)	(1,061)	76,491
Injury reduction		44,460	-	-	44,460
Investment management expense	B1	-	18,077	-	18,077
Interest on employee benefit obligations	B6	-	818	2,932	3,750
		1,217,726	14,755	1,063	1,233,544
OPERATING SURPLUS		141,411	2,452	316,553	460,416
Funding Policy surplus distributions	B7	-	(230,191)	-	(230,191)
NET FUNDING SURPLUS		141,411	(227,739)	316,553	230,225
OTHER COMPREHENSIVE INCOME					
Investment gains recognized in OCI	B8	389,353	-	(389,353)	-
Investment losses reclassified to surplus from ALM	B8	(78,824)	-	78,824	-
Impairment loss in OCI recognized in surplus from ALM	B8	7,087	-	(7,087)	-
Remeasurement of employee benefit obligations	B9	-	(2,452)	(18,979)	(21,431)
		317,616	(2,452)	(336,595)	(21,431)
TOTAL COMPREHENSIVE INCOME		$ 459,027	$ (230,191)	$ (20,042)	$ 208,794

Notes to the Statement of Comprehensive Income

Note Ref	Description of Adjustment	IFRS	Reason	Note Ref		Dec 31, 2010
B1	***Investment income***					
	Reclassify investment expense from income to expense	IAS 1	Material dissimilar items require separate presentation in the financial statements			18,077
	Recognize net investment gains and losses and impairment write downs through income previously recognized through OCI	IFRS 9	Net impact on current period of applying IFRS 9			
	Investment gains (losses) through OCI			B8	389,353	
	Investment gains (losses) through operating surplus			B8	(78,824)	
	Impairment loss through operating surplus			B8	7,087	317,616
B2	***Other operating income***					
	Reclassify other income to claims management	IAS 18	Cost recoveries do not meet revenue recognition criteria	B4, B5		(870)
B3	***Claims expense***					
	Reclassify material dissimilar items from claims expense to separate lines to conform with revised presentation:	IAS 1	Material dissimilar items require separate presentation in the financial statements			
	Interest expense on claim benefit liabilities				(259,000)	
	Remeasurement of claim benefit liabilities				(51,172)	
	Claims management			B4	(94,699)	(404,871)
B4	***Claims management***					
	Reclassify other operating income to claims management	IAS 18	Cost recoveries do not meet revenue recognition criteria	B2	(866)	
	Reclassify employee benefit plan costs under defined benefit accounting:	IAS 1	Material dissimilar items require separate presentation in the financial statements			
	Interest on employee benefit obligations			B6	(360)	
	Remeasurement losses to other comprehensive income			B9	(1,079)	
	Reclassify claims management from claims expense to separate line item	IAS 1	Material dissimilar items require separate presentation in the financial statements	B3	94,699	92,394
	Recognize full actuarial gains and losses on employee benefit plans on claims management	IFRS 1	IFRS 1 transitional election for cumulative unrecognized gain on long-term disability plan		679	
	Recognize multiemployer pension cost on claims management	IAS 19	Net impact of applying defined benefit accounting		(1,482)	
	Recognize computer equipment assets and liabilities under finance leases	IAS 17	Net impact of transitional recognition of assets and liabilities under IAS 17		(5)	(808)
B5	***Corporate administration***					
	Reclassify other income to corporate administration	IAS 18	Cost recoveries do not meet revenue recognition criteria	B2	(4)	
	Reclassify employee benefit plan costs under defined benefit accounting:	IAS 1	Material dissimilar items require separate presentation in the financial statements			
	Interest on employee benefit obligations			B6	(458)	
	Remeasurement losses to other comprehensive income			B9	(1,373)	(1,835)
	Recognize full actuarial gains and losses on employee benefit plans on corporate administration	IFRS 1	IFRS 1 transitional election for cumulative unrecognized gain on long-term disability plan		864	
	Recognize multiemployer pension cost on corporate administration	IAS 19	Net impact of applying defined benefit accounting		(1,919)	
	Recognize computer equipment assets and liabilities under finance leases	IAS 17	Net impact of transitional recognition of assets and liabilities under IAS 17		(6)	(1,061)
B6	***Interest on employee benefit obligations***					
	Recognize net interest expense through finance expense	IAS 19(R)	Net impact on current period of applying IAS 19 (R)			
	WCB benefit plans (reclassified from administration expense)				818	
	Multiemployer pension plans (recognized directly)				2,932	3,750
B7	***Funding Policy surplus distributions***					
	Reclassify surplus distributions from statement of funded position to statement of comprehensive income	IAS 1	IAS 1 prescribes that all changes in equity that do not arise from transactions with owners in their capacity as owners be recognized through the statement of comprehensive income			(230,191)
B8	***Investment gains and losses through OCI***					
	Reverse accounting treatment for available-for-sale investments under IAS 39		Net impact on current period of applying IFRS 9	B1		(389,353)
				B1		78,824
				B1		(7,087)
B9	***Remeasurement of employee benefit obligations***					
	Recognize remeasurement losses in OCL:	IAS 19(R)	Net impact on current period of applying IAS 19 (R)			
	Reclassify other defined benefit plan losses from administration					(2,452)
	Recognize multi-employer pension plan losses					(18,979)

C. Statement of Changes in Funded Position		December 31, 2010			
($ thousands)	Notes	Canadian GAAP	Presentation Differences	Recognition and Measurement Differences	IFRS
FUND BALANCE					
Accumulated operating surplus					
Balance, beginning of year		$ 810,597	$ -	$ -	$ 810,597
Effects of adoption of IFRS at January 1, 2010:					
Elimination of AOCI to opening accumulated operating surplus	C1	-	328,196	-	328,196
Recognition (derecognition) of assets and liabilities:					
Leases - finance leases	C2	-	-	(61)	(61)
Employee benefits - cumulative gains and losses on DB plans	C3	-	-	4,023	4,023
Employee benefits - multi-employer DB plan liabilities	C4	-	-	(45,021)	(45,021)
Balance, beginning of year - restated on IFRS basis		810,597	328,196	(41,059)	1,097,734
Net funding surplus	B	141,411	(227,739)	316,553	230,225
Surplus distributions	B7	(230,191)	230,191	-	-
Transfer to reserve		(22,300)	-	-	(22,300)
		699,517	330,648	275,494	1,305,659
Accumulated other comprehensive income (loss)					
Balance, beginning of year		328,196	-	-	328,196
Effects of adoption of IFRS at January 1, 2010:					
Unrealized gains on available-for-sale investments	C1	-	(328,196)	-	(328,196)
Balance, beginning of year - restated on IFRS basis		328,196	(328,196)	-	-
Other comprehensive income (loss)	B	317,616	(2,452)	(336,595)	(21,431)
		645,812	(330,648)	(336,595)	(21,431)
Fund Balance		1,345,329	-	(61,101)	1,284,228
OCCUPATIONAL DISEASE RESERVE					
Balance, beginning of year		294,400	-	-	294,400
Transfer from accumulated operating surplus		22,300	-	-	22,300
		316,700	-	-	316,700
		$1,662,029	$ -	$ (61,101)	$1,600,928

Notes to the Statement of Changes in Funded Position

Note Ref	Description of Adjustment	IFRS	Reason	Note Ref		Dec 31, 2010
C1	***Accumulated operating surplus***					
	Elimination of AOCI balance as at January 1, 2010 to opening Fund Balance:	IFRS 9	Impact of retrospective application of IFRS 9 on Fund Balance at date of transition to IFRS			
	AOCI balance as at December 31, 2009					328,196
C2	***Leases***					
	Recognize computer equipment assets and liabilities under finance leases	IAS 17	Net impact of transitional recognition of assets and liabilities on opening Fund Balance under IAS 17	A2		(61)
C3	***Employee benefits – other defined benefit plans***					
	Recognize cumulative unrecognized actuarial gains and losses on employee benefit plans (long-term disability)	IFRS 1	Net impact of transitional recognition of other long-term employee benefit plans on opening Fund Balance under IAS 19	A5		4,023
C4	***Employee benefits – multi-employer pension plans***					
	Recognize multi-employer pension liabilities due to accounting policy change from defined contribution to defined benefit plan accounting	IAS 19	Net impact of transitional recognition of pension assets and liabilities on opening Fund Balance under IAS 19			
	PSPP			A5	(41,529)	
	MEPP			A5	(3,492)	(45,021)

D. Statement of Cash Flows				December 31, 2010	
($ thousands)	Notes	Canadian GAAP	Presentation Differences	Recognition and Measurement Differences	IFRS
OPERATING ACTIVITIES					
Cash inflows (outflows) from business operations					
Employer premiums		$ 989,237	$ -	$ -	$ 989,237
Dividend, interest, and derivative income	D1	216,507	(216,507)	-	-
Realized net investment gains	D2	78,824	(78,824)	-	-
Other	D3	468	(468)	-	-
Benefits to claimants and/or third parties on their behalf		(600,876)	-	-	(600,876)
Employee and supplier payments for administrative and other goods and services	D4	(176,243)	1,820	-	(174,423)
Injury reduction program funding		(44,460)	-	-	(44,460)
Net cash from operating activities		463,457	(293,979)	-	169,478
INVESTING ACTIVITIES					
Cash inflows (outflows) related to investment assets					
Interest income	D5	-	78,536	-	78,536
Dividend income	D5	-	38,027	-	38,027
Other investment income	D5	-	7,031	-	7,031
Gains on sale of investments	D5	-	66,222	-	66,222
Proceeds on settlement of derivatives	D5	-	33,185	-	33,185
Investment management expense	D5	-	(17,620)	-	(17,620)
Purchase of investments	D5	(186,594)	89,760	-	(96,834)
Cash outflows related to operating assets					
Property, plant, and equipment - purchased		(10,139)	-	-	(10,139)
Property, plant, and equipment - leased	D6	-	(1,162)	-	(1,162)
Intangible assets		(4,778)	-	-	(4,778)
Net cash from (used for) investing activities		(201,511)	293,979	-	92,468
FUNDING ACTIVITIES					
Cash outflows from funding activities					
Surplus distributions to employers		(563)	-	-	(563)
Net cash used for funding activities		(563)	-	-	(563)
NET INCREASE IN CASH AND CASH EQUIVALENTS		261,383	-	-	261,383
Cash and cash equivalents, beginning of year		100,722	-	-	100,722
CASH AND CASH EQUIVALENTS, END OF YEAR		$ 362,105	$ -	$ -	$ 362,105

Notes to the Statement of Cash Flows

Note Ref	Description of Adjustment	IFRS	Reason	Note Ref		Dec 31, 2010
	Dividend, interest, and derivative income					
	Reclassify components of investment income from operating to investing activities	IAS 7	IAS 7 requires disaggregation of interest, dividends, and other significant sources and uses of cash. New financial statement presentation conforms with this requirement			
D1	Dividend, interest, and derivative income				(216,507)	
D2	Realized net investment gains (losses)				(78,824)	(295,331)
D3	***Other***					
	Reclassify separate presentation of immaterial cost recoveries to employee and supplier payments	IAS 7	Separate presentation of immaterial items not required			(468)
	Employee and supplier payments in administration					
	Reclassify other payments and computer leases from operating to finance leases:	IAS 17	Net impact of accounting policy change from operating to finance lease. Net effect of lease finance expense is immaterial.			
D3	Other		Reclassify other items to administrative payments		468	
D4	Investment management fee accruals		Net change in payments due to reclassification of investment-related payable from net investments		190	
D4	Employee and supplier payments		Adjust rental expense		1,162	1,820
D6	Property, plant and equipment - leased		Payments under finance leases			(1,162)
D5	***Cash inflows (outflows) from investing activities***					
	Disaggregation of investment income into material items		Material dissimilar items require separate presentation in the financial statements			
	Dividend, interest, and derivative income			D1	216,507	
	Realized net investment gains (losses)			D2	78,824	
	Net change in investment-related payables			D4	(190)	295,141

Appendix: Glossary

Asset-liability management

A risk management approach that ensures sufficiency of resources to discharge specified obligations by managing the risk characteristics of invested assets relative to liabilities for such factors as yields, duration, volatility and default.

Asset-liability study

A financial model for determining the appropriate amount and mix of investment assets, given a specified level of risk, to generate a return that is sufficient to fund the interest requirement of claim benefit liabilities.

Average premium rate

Calculated as total revenue requirements divided by the projected insurable earnings for the premium year.

Currency overlay

A foreign-currency risk management strategy used in international investment portfolios to separate the management of currency risk from the asset allocation and security selection decisions of the fund managers.

Derivative

A **financial instrument** whose characteristics and value depend on the characteristics and value of an underlying security, typically a commodity, bond, equity or currency. Examples of derivatives include futures and options. Derivatives are used to manage risk associated with the underlying security, to protect against fluctuations in value or to profit from periods of inactivity or decline.

Fair value

The amount of the consideration that would be agreed to in an arm's-length transaction between knowledgeable, willing parties who are under no compulsion to act. In the context of investments, fair value is generally synonymous with market value.

Financial instrument

Any contract that gives rise to a financial asset (e.g., cash equivalent, accounts or note receivable, share security) of one party and a financial liability (e.g., accounts or note payable, bond) or equity instrument (e.g., stock option, warrant) of another party.

Financial risk

The possibility or chance that an investment's return will be other than expected, resulting in a negative outcome. The negative outcome would be associated with the possibility of losing some or all of the original investment, or adverse changes in its cash flows. For a specific investment, risk is usually measured by calculating the standard deviation of its historical or average returns.

Hedging

A portfolio management activity designed to modify an entity's exposure to one or more financial risks by creating an offset between changes in the fair value of or the cash flows attributable to the hedged item and the hedging item (or the changes resulting from a particular risk exposure relating to those items).

Margin for adverse deviation

A risk margin that addresses the uncertainty arising from statistical fluctuations and data anomalies that are inherent in long term actuarial assumptions.

Meredith Principles

The framework outlined in then-Chief Justice of Ontario Sir William Meredith's report on workers' compensation in 1913, now commonly known as the Meredith Principles:

- Workers receive compensation benefits regardless of fault for work-related injuries.
- Employers share collective liability for the costs of work-related injuries and, in return, employees waive the right to sue.
- Injured workers are entitled to prompt payment of benefits, and guaranteed future payments.
- The workers' compensation agency has exclusive jurisdiction over all legal matters arising out of the enabling legislation.
- The agency is financially independent of the government and enjoys full autonomy over all administrative and adjudicative matters.

Real discount rate

The rate used to discount the actuarial projections of all future claim benefit payments back to present value. The rate is based on the real rate of return that the investment portfolio is expected to generate over the long term, at a 70% probability level. This provides the mechanism for generating a margin for adverse deviation in the claim benefit liability. The real discount rate is also called the net discount rate.

Real rate of return

The annual percentage return realized on an investment, adjusted for changes in prices due to inflation or deflation.

Return

The interest and dividend income and the capital gains or losses associated with an investment. The return is usually quoted as a percentage of the investment's market value (market return) or its book value (book return). Performance of an investment or a pool of investments is the actual rate of return over a given evaluation period.

Risk

In general, the possibility or chance that a future event or outcome will be different than expected, and will lead to a loss. See also **financial risk**.

2011 Summary of Claims Administered

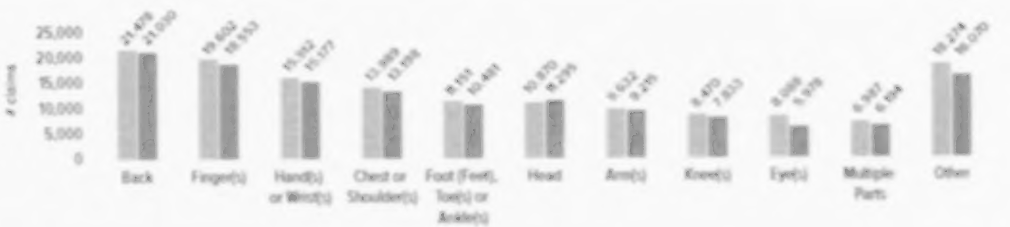
	2011		2010	
Active claims as of January 1		25,860		25,614
New lost-time claims	27,072		24,652	
New medical aid only claims	117,381		110,372	
Total new claims reported	**144,453**		**135,024**	
Recurrent claims[1]	22,917		24,283	
	167,370	167,370	159,307	159,307
Total claims administered		**193,230**		**184,921**

[1]Previously inactive claims that required further adjudication or case management. Claims may reopen for a number of reasons such as payments for medical aid or requests for further compensation benefits.

Ineligible claims	2011	2010
LOST-TIME CLAIMS		
Insufficient information available to process claim	264	203
Not covered under *Workers' Compensation Act*	126	92
Injury or illness not arising out of/in course of employment	2,006	2,060
MEDICAL AID ONLY CLAIMS		
Insufficient information available to process claim	4,670	4,289
Not covered under *Workers' Compensation Act*	2,036	1,883
Injury or illness not arising out of/in course of employment	3,614	3,492

New claims by nature of injury 2011 2010

New claims by part of body 2011 2010



Number of modified-work-only claims as a percentage of claims reported

2007	2008	2009	2010	**2011**
15.7%	17.1%	14.8%	15.7%	**15.6%**

2011 Year at a Glance

	2011	2010
Number of workers covered	1,792,023	1,708,197
Lost-time claim rate (per 100 workers)[1]	1.6	1.5
Disabling-injury rate (per 100 workers)[1]	2.8	2.7
Number of new claims reported	144,453	135,024
Number of lost-time claims[1]	27,900	25,500
Number of recurrent claims[2]	22,917	24,283
New non-economic loss and permanent disability awards	2,969	2,954
New economic loss awards	602	372
Fatality claims accepted	123	136
Ineligible lost-time claims (percentage of all lost-time claims)	8.9%	9.6%
Number of new requests for review to the DRDRB	2,904	2,811
Return-to-work percentage	93.5%	93.3%
Estimated average claim duration (TTD days)	36.6	36.1
Claim costs (thousands)	$1,121,179	$1,090,766[3]
Registered employers	146,408	139,343
Premium revenue (thousands)	$1,033,858	$1,031,541
Average collected premium rate (per $100 of insurable earnings)	$1.23	$1.31
Investment income (thousands)	$310,800	$662,419[3]
Funded position (thousands)	$1,655,087	$1,600,928[3]
Funded ratio (per cent funded)	128.3%	128.0%[3]

[1] *Lost-time claims and the lost-time claim and disabling-injury rates are projected. This approach is taken to ensure claims for accidents occurring in 2011 but not reported by year-end are considered.*

[2] *Previously inactive claims reopened for a number of reasons including payments for medical aid or requests for further compensation benefits.*

[3] *These 2010 figures have been restated to reflect IFRS reporting.*

Dispute Resolution and Decision Review Body:
2011 Claim Review Request Life Cycle

WCB's Office of the Appeals Advisor (OAA) provides independent advice, assistance and advocacy services to injured workers and their dependents when questioning a decision. In 2011, appeals advisors helped injured workers and their dependents by

- **resolving 1,208 issues on 867 claims**
- **representing them at 558 hearings.**

Workers'
Compensation
Board
Alberta

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